

Public Utilities



Volume 58 No. 13

December 20, 1956

PARTNERS IN POWER: COAL THE UTILITIES

By the Honorable Tom Pickett

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Regulatory Check List for State Issue Cases

By the Honorable John P. Thompson

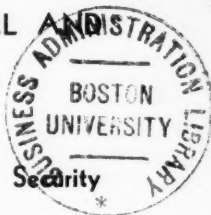
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Transit Survival Poses "Ingenious Paradox"

By Herbert Bratter

« »

Postelection Stirrings in Federal Power Policy



WATCH WESTINGHOUSE Where Big Things Are Happening in the Utility Industry

Westinghouse Lighting Used in Dramatic "Facelifting" of New York's 3rd Avenue

A startling demonstration of the way many cities can improve their property values has just been given in New York.

At one time, Manhattan's Third Avenue, with its antiquated "El", was a street of noise and darkness and danger. Today, Third Avenue is being developed into a well-lighted, six-lane concrete thoroughfare from Brooklyn Bridge to the Bronx. Crime and accidents have gone down. Real estate values have gone up—soaring.

Now that Third Avenue is bright during the day and just as bright at night, realtors are interested in developing this "new" street. New office buildings are being planned. Apartment houses will be constructed. And the New York skyline will have another new look.

Westinghouse TYPE 4-F-S-L fluorescent street lights were used on Third Avenue.

In New York, Cleveland, Seattle and many other cities the trend is to make the streets wider, safer and better illuminated. Westinghouse lighting engineers will be glad to work with your lighting department to bring "Daylight" brightness to your city streets. In street lighting, too, you can be sure . . . if it's Westinghouse.

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Regulatory Check List for State Security Issue

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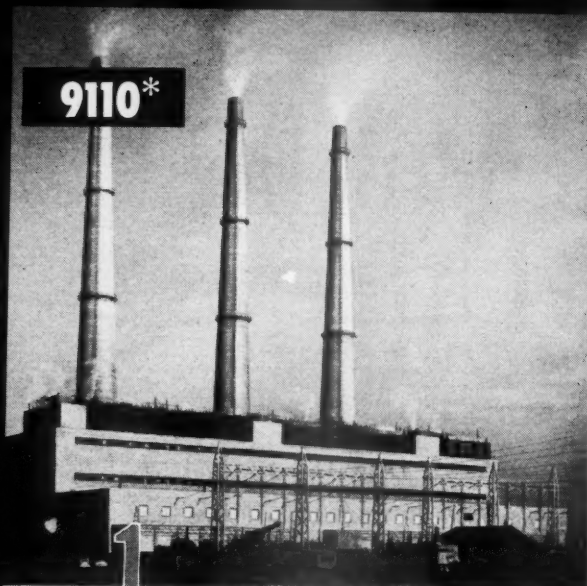
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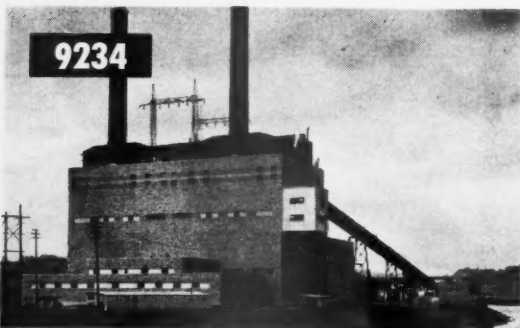
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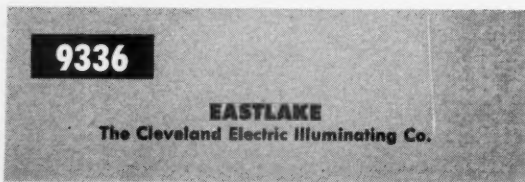


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Ohio Power Co. on the American Gas and Electric System

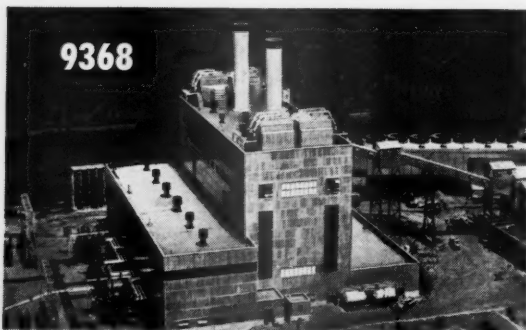
Two B&W Pressure-Fired Open-Pass Reheat Boilers with Gas Recirculation.



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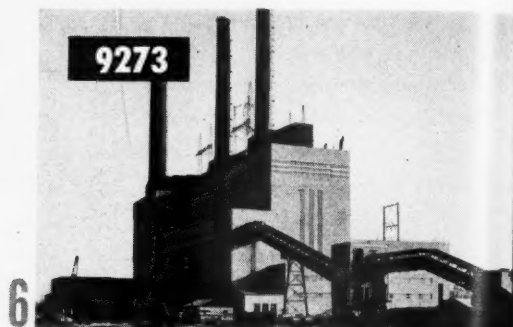


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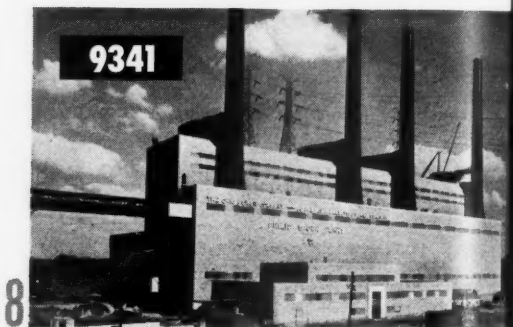


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Four B&W Pressure-Fired Radiant Reheat Boilers with Gas Recirculation and Divided Furnace Construction.

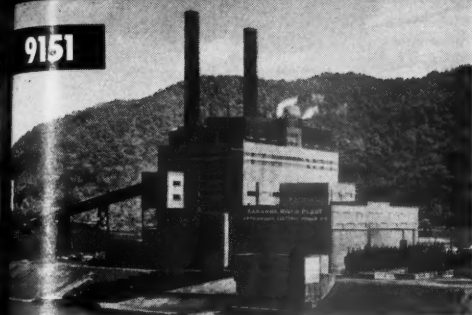


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KANAWHA RIVER

Appalachian Electric Power Co. on the American Gas and Electric System

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These 10 Power Plants Tell WHY AMERICA'S ELECTRIC COSTS STAY LOW

**Engineering Development and Research
Pay Off in Increased Efficiency**

The most efficient power plants in the United States in 1955, as reported by the Federal Power Commission, are led by the two largest investor-owned power plants in the world—Kyger Creek, with 9110 Btu per net kwhr, and Clifty Creek, with 9143.

These ten stations—and the many others like them throughout the country—exemplify the foresight and progressiveness of American public utility management. They have quickly put “on the line” major engineering advances in power generation.

FIVE YEARS AGO only two plants operated under 10,000 Btu per net kwhr. In 1955, there were 41. This progress has been gained by the united effort of electric companies and their primary suppliers to produce more electricity more efficiently, and at a continued low cost to the consumer.

TODAY'S TRIUMPHS in keeping power cheap are only a step on the way to greater achievement. Already there are plants in operation or being built which will have heat rates of 8500 Btu per net kwhr—and research is being intensified to gain even lower levels. At the same time, American utilities and their suppliers are steadily pushing the use of nuclear energy on a massive scale.

B&W RESEARCH AND DEVELOPMENT, with a background of knowledge covering nearly a century of boiler engineering, design, and fabrication, continues to move ahead, with America's electric companies, to attain ever higher levels of steam-electric generating efficiency with conventional fuels and to open new horizons with atomic energy. The Babcock & Wilcox Company, Boiler Division, 161 East 42nd Street, New York 17, N. Y.

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Pages with the Editors

THE average nontechnical person is very likely to get the idea, from reading glowing Sunday supplement reports about the future promise of atomic energy, that conventional fuels are on the way out. The fact is that the increasing demands for electric power, long before nuclear energy production becomes commercially competitive, will put a good deal of pressure on our production of conventional fuels to keep up with the pace.

TRUE, our nation has been blessed with bountiful resources of oil and natural gas, and our technical know-how for discovering new reserves has demonstrated the ability of the oil-gas industry to keep its place in the parade of supplying fuel demands to date. And our coal reserves have always been estimated in the order of centuries rather than decades.

YET realistic appraisals by competent specialists indicate that there will be plenty of use for all types of fuel. Nuclear power development, if anything, will not get here too soon. In other words, there will be plenty of work for both nuclear and fossil fuels.

THINK what would happen if we did *not* have nuclear power to look forward to, in the face of the dynamic rise in the public demand for power supply! It has been estimated that in less than a hundred years the world's coal requirements, for power load, may be *equal to one thousand times present U. S. coal production!*

THIS prediction was recently made by Stuart McClain, associate director of the Argonne National Laboratory of the Atomic Energy Commission. Speaking at the twelfth annual National Conference on Industrial Hydraulics in Chicago last October, McClain said that while several basic types of reactors operating at commercially competitive levels may be demonstrated as early as 1965, the main shift



TOM PICKETT

to nuclear power plant construction would come about 1970 and it will take until 1980 before atomic fuel plants will produce "an appreciable portion of the world's energy."

THE electric utility industry is now the best customer of the coal industry, surpassing even the railroads in recent years. But the increasing requirements of the nation's economy for heating fuels of all kinds have created changing patterns for fuel markets and industrial operations. The introduction of natural gas at bargain rates into service areas of electric utilities during nonheating seasons, the increasing freight rates being asked by railroads, and the complex outlook for both future hydroelectric and atomic nuclear power plant development are factors which will bear constant supervision and analysis.

IN the leading article in this issue, TOM PICKETT, former Texas Congressman, and executive vice president of the National Coal Association since 1952, has written a comprehensive analysis of the economic relationship between coal and electricity. This article stresses not only the importance of partnership between the two but also the continued threat of invasion

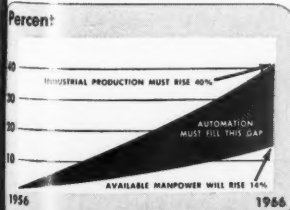
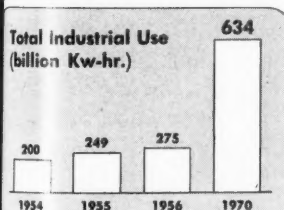


GOODBYE STEVE

GENERAL ELECTRIC'S D. L. Beeman, Industrial Power Systems Engineering, examines clips from new film stressing modern industrial power distribution systems.

New Industrial Power Distribution Program helps pave way for automation by spurring plant expansion and modernization to . . .

Remove bottlenecks to realization of industrial load growth forecasts



General Electric's Industrial Power Distribution Program is designed to focus attention on industrial plant power distribution systems, too often neglected by industry. By so doing, it will help pave the way towards meeting load growth forecasts, and will accelerate the trend to automation.

Economists predict that by 1966, the demand for goods and service will increase over 40%, while the available work force will increase only 14%. Obviously the gap will have to be filled by automated processes.

In order to make automation workable, the user must prepare for greater load and closer regulation through a

FORECASTS SHOW industry's use of power climbing to 634 billion kw-hr by 1970*. Automation will eventually fill the void left by an insufficient labor force. Automated processes (bottom) like this, used for condenser parts assembly, typify future production lines.

*Source: McGraw-Hill Publishing Co.

more efficient power distribution system. To help effect this, General Electric has recently launched a comprehensive "More Power to America" program stressing reliability, economy, safety, flexibility and expandability in the plant's distribution system.

A color motion picture, "Goodbye Steve," the manual "Power to Produce," advertisements, Productivity Forums and a host of other aids will explain to industry the need for streamlining its power distribution systems. Motion pictures and manuals to help pave the way to automation for your industrial customers may be obtained through your General Electric Apparatus Sales Office. General Electric Company, Schenectady 5, N. Y. 301-322

MORE POWER TO AMERICA

GENERAL  ELECTRIC

PAGES WITH THE EDITORS (Continued)

by government agencies into the free private enterprise economies of both industries.

MR. PICKETT is a lawyer who served as county attorney of Anderson county, Texas, and ten years as district attorney for the third judicial district of Texas. He was first elected to Congress in 1944 and was recognized as a vigorous defender of the free enterprise system and an outspoken opponent of the federal government's invasion into the field of private business. He resigned from the House in 1952 to take his present post in the coal industry.

* * * *

WHAT do state public utility commissioners think about; what tests do they apply; and what rules do they follow in cases before them involving applications by utility companies for security issues? Based on his experience as a member of the Colorado Public Utilities Commission, JOHN P. THOMPSON (beginning on page 962) has given us a down-to-earth, practical description of the standards and routines which he believes state commissions will find helpful in handling such proceedings fairly and with dispatch. Essentially, COMMISSIONER THOMPSON has outlined a check list of questions which he thinks commissions should ask and applicant utilities should answer in the process of obtaining regulatory approval for the issuance of new public utility securities of all kinds. He goes into the terms and conditions as well as the form of securities and other background data which not only regulatory commissions and their staffs but also investment specialists and others interested in utility financing will want to consider in dealing with this type of procedure.

COMMISSIONER THOMPSON is thirty-six years old. He majored in economics in college, graduating from George Washington University in 1942. After serving as a Marine Corps pilot during World War II, he attended law school in Denver and was admitted to the Colorado bar in 1950. He then engaged in private practice until September, 1954, when he was appointed to the Colorado commission. He is a mem-



JOHN P. THOMPSON

ber of the Denver, Colorado, and American Bar associations.

* * * *

THE paradox of the transit industry today may be stated simply in two propositions: (1) Never in the history of the country has the outlook for increased demand and expanded facilities for public transit been so plainly indicated as in this day of rapid creation and growth of cities, suburbs, satellite cities, and newly developing residential areas generally. (2) Never has the outlook for over-all prosperity for the transit business been so cloudy.

BEGINNING on page 975, HERBERT BRATTER, Washington economist and author of business articles, has endeavored to probe beneath the surface and find not only the reasons for, but possible answers to, this paradox of increasing demand against a diminishing return. He finds that the real problem may be recognition of factors which do not enter into the economics of ordinary profitable business.

WE welcome this opportunity of wishing our readers and friends everywhere a Merry Christmas and a Happy and Prosperous New Year.

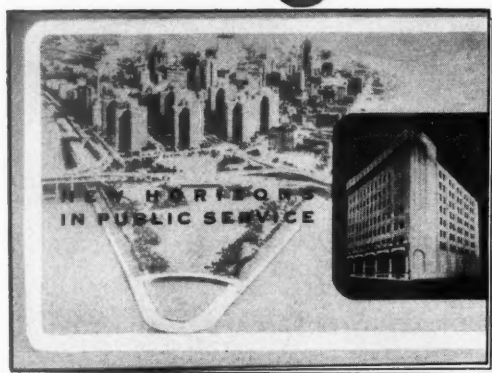
THE next number of this magazine will be out January 3rd.

The Editors

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of all
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This new 40-page, illustrated booklet presents a comprehensive demonstration of the most modern business methods, machines and record systems...*in actual operation*...in one of America's oldest and most outstanding Public Utilities. Don't miss the detailed story showing how this great utility was completely revitalized...how efficient record controls have been proved in use...how its customers are now provided with the *finest and most modern, convenient, economical, friendly and dependable SERVICE.*

Today, every forward-looking utility executive recognizes that *customer satisfaction and service* are its most powerful selling tools. In this book is detailed how this established utility reorganized its procedures...moved into a large new building in a rapidly expanding metropolitan area...continued "business as usual" while improving service to old customers and extending services to thousands of new ones!

New Horizons in customer services is the result...with all manner of attendant benefits. The Customer Service

Center with centralization of related records is unique and makes for *fast, accurate, efficient service*...new and simpler procedures...elimination of unnecessary paper work...establishment of well-defined departmental responsibilities...high employee morale.

Every phase of utility operation is covered in this valuable book: Redistricting, Meter Reading, Customer Service Location Record, Customer History Record, Credit and Collection Department, Unit Bookkeeping Department, General Accounting Department, and so on.

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(January 3, 1957, issue)



THE OUTLOOK FOR PUBLIC UTILITIES—1957

With the New Year will come the convocation of a new Congress, the 85th in the history of our Republic. Nominally organized in both branches by the Democrats, it will nevertheless be pretty evenly balanced on political control, which means that coalitions and alliances will play a more important part than ever in the legislative outlook. This will be an analysis of the possible consequences of new developments in Congress and federal agencies respecting various utility industries during the New Year. Francis X. Welch, editor of PUBLIC UTILITIES FORTNIGHTLY, who has regularly written the "forecast" article at the beginning of each year, gives us some new predictions for the year 1957, along with reasons why he thinks they will come to pass.

DIVIDEND POLICY AND REDUCTION OF TAX LIABILITY

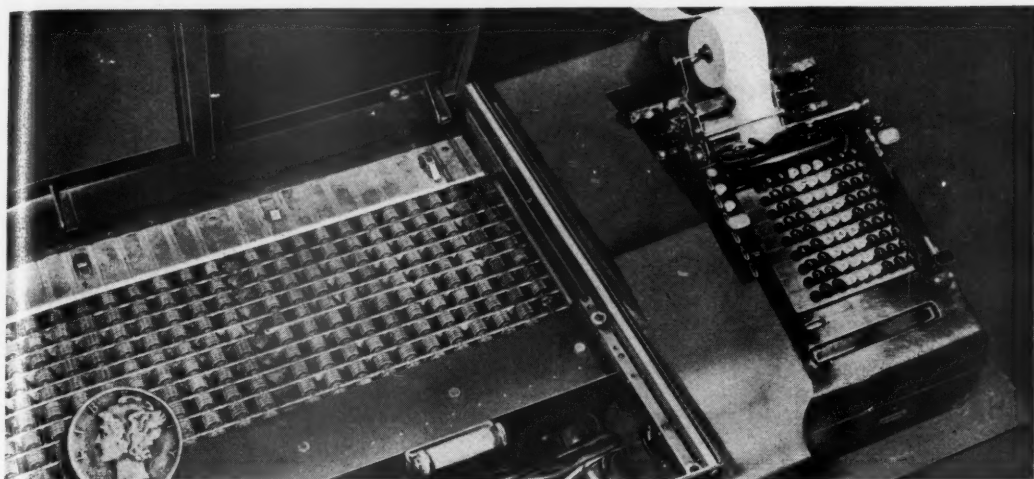
Here is a provocative suggestion for the consideration of possible changes in dividend policy by public utilities which might make their securities more desirable from the standpoint of investors. Where such changes would enable shareholders to minimize their tax liability, the result might materially assist the issuing utility company to raise necessary new capital for plant expansion in competition with other demands on the money market. This article outlining such possibilities comes from Fred P. Morrissey, associate professor of business administration, University of California, School of Business Administration. This discussion is presented simply as an interesting proposal of what might be done in making utility financing through securities more attractive to investors, as well as more useful in raising the necessary capital for the issuing companies. It will be understood, of course, that all changes in dividend pay-out policy must be considered cautiously and with due regard for the reputation which a given class of securities has established among the investors, and their confidence in the same.

ADVANCE PLANNING FOR UTILITIES PAYS OFF

When newspaper editors periodically assign reporters to articles on what the local city will look like some years ahead, the invariable suggestion is that the reporter start out with the public utility companies. They are supposed to have a pretty good idea, because it is their service responsibility, as well as good business, to be forehanded, not only on trends and directions of population shifts, but also the likely changes in the character of various areas and neighborhoods. But do the public utility companies actually plan ahead as they should? If so, how do they do it? How is the master plan and the subordinate planning and the co-ordinated plan, and the continuity organized? Thomas E. J. Keena of the editorial staff of The Hartford Courant became intrigued with this specialized phase of public utility operations and has made his own investigation of who, how, and why public utility companies plan ahead.



Also . . . Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.



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Just as sure as if it coined actual cash the work done by our "Bill Frequency Analyzer" * will swell your company coffers!

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R & S specializes in serving utility companies all over the country—we know your problems, know how to interpret your requirements and give you any break-down in report form you may require... minimums, demand rates, and so on.

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Remarkable Remarks

"There never was in the world two opinions alike."

—MONTAIGNE

SUMNER H. SLICHTER
Economist, Harvard University.

"During recent years, conditions and institutions in the U. S. have been changing in such a way as to make the economy less and less prone to move in a cyclical fashion."

LEWIS L. STRAUSS
Chairman, Atomic Energy Commission.

"[Atomic power plants] constructed by the government on a cost-plus-fixed-fee basis afford no realistic estimate of how costs can be reduced under competitive conditions."

FRANK T. BOW
U. S. Representative from Ohio.

"Actually it is not a benevolent Uncle Sam or 'the government' that lends the money for the construction of federal power projects. It is we taxpayers. The money advanced or invested in these projects comes in the main from the use of federal income taxes, paid of course by corporations as well as individuals."

WILLIAM HENRY CHAMBERLIN
Writing in The Wall Street Journal.

"In a nation so large as the United States and so varied in social and economic traditions and conditions, complete centralization of power in the federal government is undesirable and probably unworkable. It would be well to consider carefully the implications not only of the Fifth but also of the Tenth Amendment: 'The powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively or to the people!'"

WILLIAM H. GRIMES
Columnist.

"... it is beyond argument that you cannot have a strong policy—national or international—if you have a weak nation. And it is beyond argument that a strong nation cannot be fabricated from a group of communities where the citizen is indifferent, where law and order can be flouted; that you cannot make a strong whole out of weak parts. More than fifty years ago Lord Bryce, the British student of the American political scene, found that the greatest failure in the American political structure was in local government. That still is true and it will remain so unless a vigilant press and a vigilant citizenry force changes."

HAROLD W. METZ
*Formerly senior staff member,
The Brookings Institution.*

"From the standpoint of the government, the private enterprise system is a source of revenue out of which public services are financed. The more government competes with private enterprise by producing goods and services itself, the less will private enterprise produce out of which taxes can be paid to support the government. The smaller the sector of private enterprise that can be taxed, the greater must be the amount of taxes imposed upon the enterprises that remain and the individuals connected with them. The higher the burden of taxes on the individual, the less is his liberty to spend his income as he desires, or to conduct his affairs as he desires."



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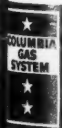
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INTERNATIONAL engines are *all-truck built*. They are *not* adapted from passenger car designs—they contain *no* passenger car parts.

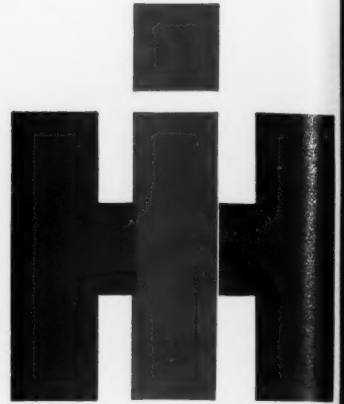
Every component of every INTERNATIONAL engine is built to do a truck-sized job—built to give you longer engine life.

The pictures below show you some of the other reasons why INTERNATIONAL Trucks will save you money over the years. Actual records kept

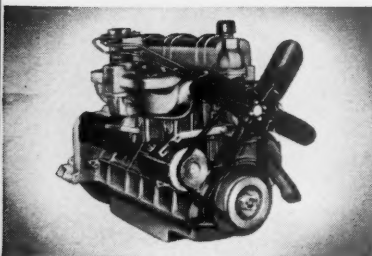
by fleet operators prove* that INTERNATIONALS cost *least* to own! By spending more to *build* a truck—by putting more quality into it—INTERNATIONAL gives you a truck that costs least to operate.

If you want to save real money in operating your trucks, the man to see is your INTERNATIONAL Dealer. Give him a ring today!

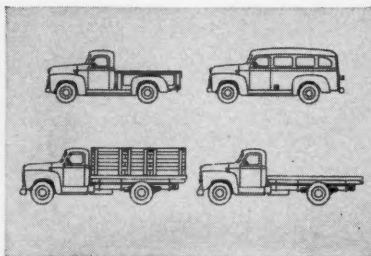
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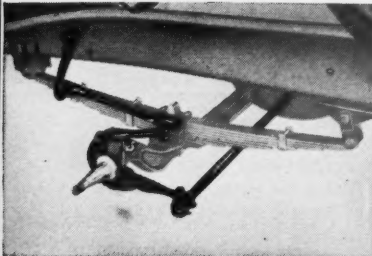
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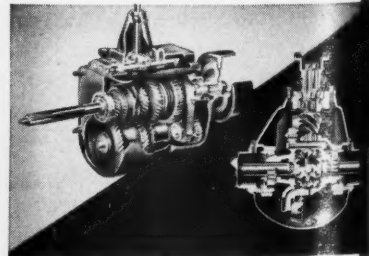
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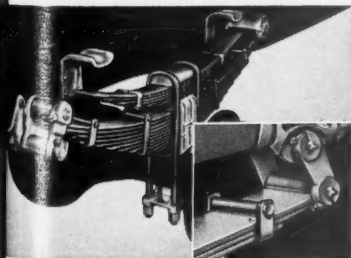
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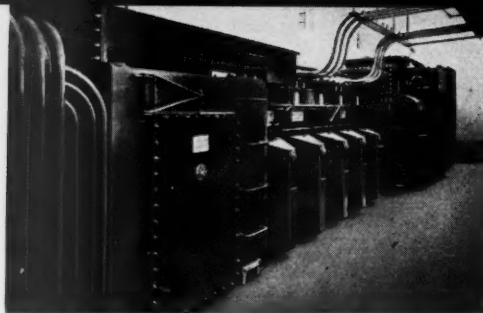


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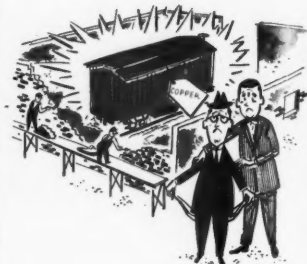
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2 The depression years momentarily diverted Substation Sam's sales attention...



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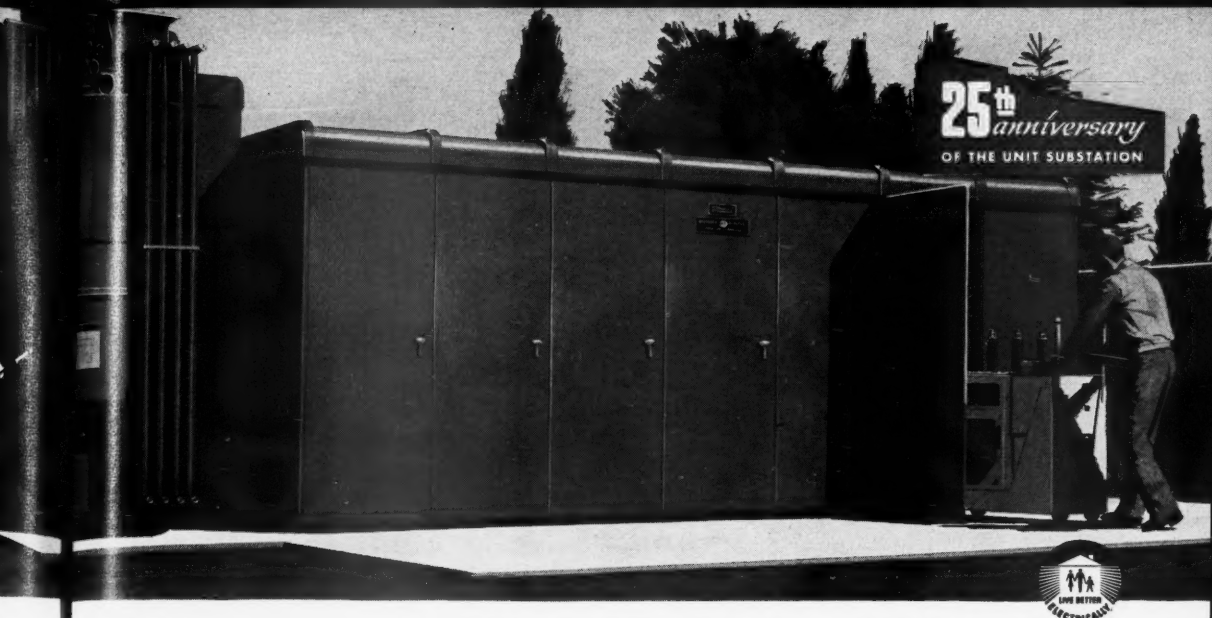


7 Sam's Control-Center Substation helped speed mechanization and automation in industry.

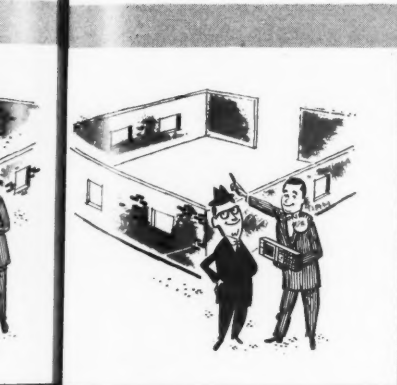


8 Buildings big or small rely on Sam's Load-Center Unit Substations.

9 Sam His pro...



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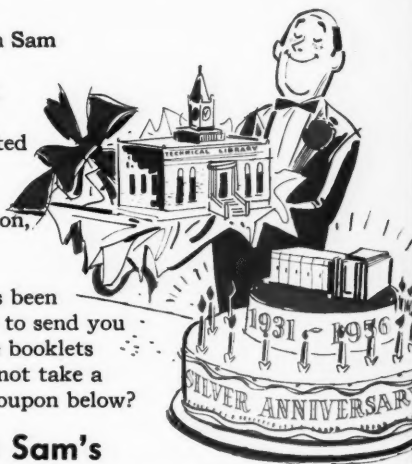


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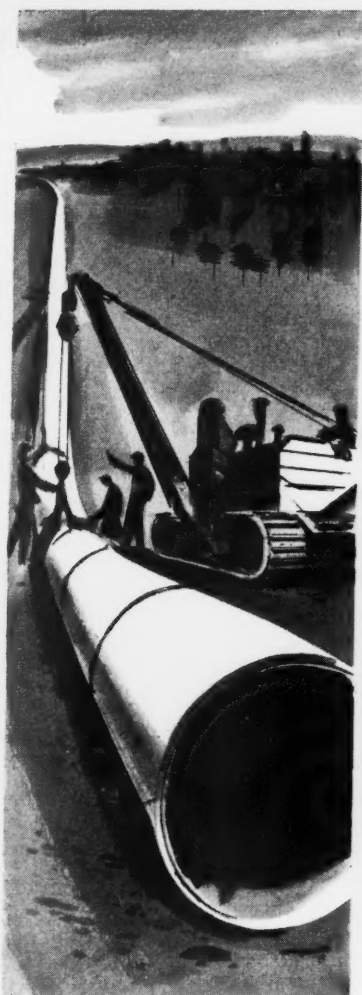


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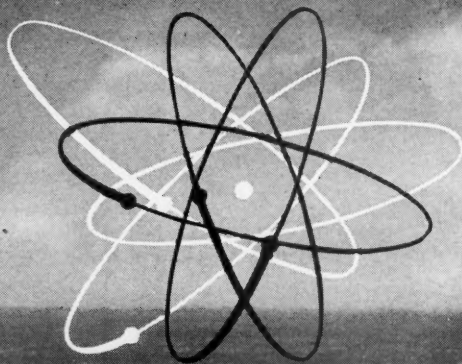
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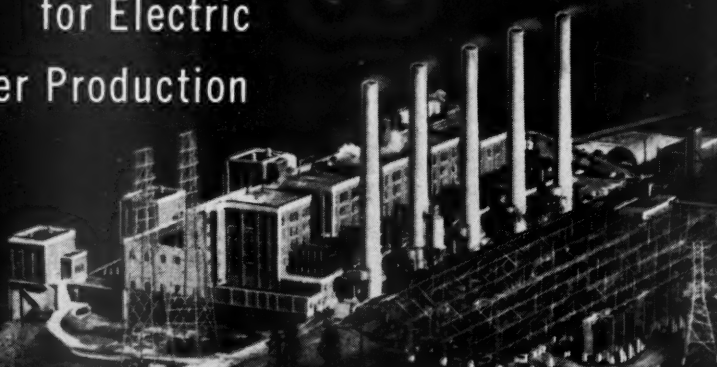
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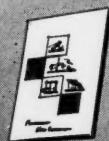
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DECEMBER-JANUARY

<p>Thursday—20</p> <p>Northeastern Weed Control Conference will be held, New York, N. Y. Jan. 10-12, 1957. <i>Advance notice.</i></p>	<p>Friday—21</p> <p>American Institute of Electrical Engineers will hold national symposium on electronics, Washington, D. C. Jan. 14, 15, 1957. <i>Advance notice.</i></p>	<p>Saturday—22</p> <p>Doble Engineering Company will hold annual conference of clients, Boston; Mass. Jan. 14-18, 1957. <i>Advance notice.</i></p>	<p>Sunday—23</p> <p>Canadian Association of Radio and Television Broadcasters will hold TV clinic, Toronto, Ontario, Canada. Jan. 17, 1957. <i>Advance notice.</i></p>
<p>Monday—24</p> <p>Southeastern Electric Exchange, Personal Administration Section, will hold meeting, Washington, D. C. Jan. 17-19, 1957. <i>Advance notice.</i></p> <p></p>	<p>Tuesday—25</p> <p>Merry Christmas, 1956!</p>	<p>Wednesday—26</p> <p>Southern Gas Association will hold round-table conference, Dallas, Tex. Jan. 18, 1957. <i>Advance notice.</i></p>	<p>Thursday—27</p> <p>American Institute of Electrical Engineers will hold winter general meeting. Jan. 21-25, 1957. <i>Advance notice.</i></p>
<p>Friday—28</p> <p>New England Gas Association, Operating Division, will hold meeting, Boston, Mass. Jan. 23, 1957. <i>Advance notice.</i></p>	<p>Saturday—29</p> <p>Pennsylvania Gas Association will hold midwinter sales conference, Philadelphia, Pa. Jan. 25, 1957. <i>Advance notice.</i></p>	<p>Sunday—30</p> <p>Southern Gas Association will hold accident prevention round-table conference, Birmingham, Ala. Jan. 25, 1957. <i>Advance notice.</i></p>	<p>Monday—31</p> <p>Industrial Heating Equipment Association will hold meeting, Washington, D. C. Jan. 28, 29, 1957. <i>Advance notice.</i></p> <p></p>
<p>JANUARY</p> <p>Tuesday—1</p> <p>Happy New Year, 1957!</p>	<p>Wednesday—2</p> <p>American Water Works Association, New York Section, will hold midwinter luncheon, New York, N. Y. Jan. 29, 1957. <i>Advance notice.</i></p>	<p>Thursday—3</p> <p>Missouri Valley Electric Association will hold industrial and commercial sales conference, Kansas City, Mo. Jan. 31-Feb. 1, 1957. <i>Advance notice.</i></p>	<p>Friday—4</p> <p>National Association of Purchasing Agents, Public Utility Buyers' Group, will hold annual midwinter conference, Louisville, Ky. Feb. 3-5, 1957. <i>Advance notice.</i></p>



Season's Greetings

Public Utilities

FORTNIGHTLY

VOL. 58, No. 13



DECEMBER 20, 1956

Partners in Power: Coal and the Utilities

The electric utility industry is now the best customer of the coal industry, surpassing even the railroads in recent years. But the increasing requirements of the nation's economy for heating fuels of all kinds has created changing patterns for fuel markets and industrial operations.

BY THE HONORABLE TOM PICKETT*

As the principal source of energy for the generation of electric power, bituminous coal must be available in increasing quantities as generating capacity moves sharply upward. To continue to supply fuel efficiently and economically, the coal industry is making remarkable progress in both production and preparation of its product. The drastic

reduction in cost of producing a kilowatt-hour of electricity—brought about through upgrading of coal and improved combustion methods—stands as a tribute to the genius and co-operation of the coal and electric utility industries.

Because of the close relationship between coal and electric power, utility executives will find it to the advantage of their own industry—directly or otherwise—to be at all times cognizant of factors

*Former U. S. Representative from Texas and now executive vice president of the National Coal Association. See, also, "Pages with the Editors."

PUBLIC UTILITIES FORTNIGHTLY

influencing coal's position. Some of the coal industry's problems, along with a few noteworthy accomplishments, are described herein.

The interdependence between coal and electricity was once described in this way by a utility company: "The miracle of electricity is the climax of an industrial romance involving closely co-ordinated teamwork between the coal and electric power industries."

The courtship began in 1882 with the consumption of five tons of coal daily in the boilers at Consolidated Edison's Pearl Street station in New York city. This match blossomed without restraint for nearly half a century, or until gas and oil began to press for the favor of the electric utility business. The intrusion reduced bituminous coal's apportionment of fuels consumed by the utilities from 83.6 per cent in the 1925-29 period to 62.9 per cent in 1953. Meanwhile, the sensational rise in generating capacity increased overall fuel demand to such an extent that the 36,000,000 tons of coal supplied to the power companies in 1925-29 spiraled to 112,000,000 tons in 1953.

COAL holds a tremendous advantage in reserve strength, and it has long been acknowledged that any infatuation on the part of the utilities with oil and gas would of necessity be temporary. Of the total mineral energy reserves in the United States, coal accounts for 92 per cent, while oil and natural gas together make up almost 1½ per cent. The remaining 6½ per cent belongs to the vast stores of shale lying within the Rocky Mountain empire. At present rates of production, the known reserves of coal would last nearly 2,000 years, with the life index of oil stocks

now set at twelve years; for natural gas, life index is twenty-two years.

Thus nature endowed coal with the wherewithal to become the life partner of the electric utilities, and this fuel's success as a suitor has become more apparent since 1954 when coal began its recovery—percentage-wise—in the utility market. During that year the coal industry supplied 66 per cent of the total fuel that went to generate electricity; for 1955 the figure was 69 per cent, and the trend is continuing upward.

Despite this happy outlook, however, the blissful relationship is still confronted with serious problems for which neither industry is responsible. Rail freight rates have been one reason for persistent headaches, for which some utilities and coal companies have been able to find relief in water transportation. This solution is becoming increasingly popular wherever mines and power plants are not "land-locked."

A FLEET of jumbo cargo barges under construction in Nashville will be added to a flotilla of other coal carriers for use on the Ohio and Mississippi rivers. They will be engaged in moving coal from Uniontown, Kentucky, to the Black Point plant of the Tampa Electric Company, the first major utility in Florida and the Gulf area to use coal for electric power generation.

The inland waterway fleet participating in this operation will include a total of 44 barges, some with a capacity of 3,500 tons and others equipped to carry 1,500 tons. They will move their cargo to a new marine transfer facility south of New Orleans, where the coal will be shifted onto 10,000-ton barges for the trip

PARTNERS IN POWER: COAL AND THE UTILITIES

through the Gulf of Mexico and Tampa Bay. Three such barges—each as long as one and one-half football fields—are being made ready for the new project, which is expected to get under way in the spring of 1957 and will continue under a 20-year contract.

Tennessee river barges carried a total of about 5,500,000 tons of coal to TVA electric generating plants during the year ending June 30, 1956. Parenthetically, it is interesting to note that steam capacity of the TVA electric system now accounts for 65 per cent of the total, as compared with only 14 per cent in 1949. As coal consumption by this electric system has increased, barge transportation has also moved sharply upward. Other principal rivers serving the public utility and bituminous coal industries include the Monongahela, Kanawha, Allegheny, and the Illinois. In all, barges moved more than 52,000,000 tons of bituminous coal and lignite on inland waterways in 1954, the latest year for which an official tabulation is available. There is no question but that the 1955 figure was much greater and that it will be exceeded in 1956.

THE economy in water transportation is emphasized in the sharply increas-

ing tonnages of coal accompanying the trend to build electric plants on navigable waterways. In selecting locations for Atomic Energy Commission plants, one requirement was that coal could be brought in by barge from producing areas to generating stations. Twenty-one electric plants are now located on the Ohio between Pittsburgh and Cairo. They generate ten times as much power as the eight located along that stretch of river produced in 1941.

Along the Mississippi river system are already 44 unloading docks operated by the electric utility industry. Commonwealth Edison of Chicago, the largest coal consumer among the utilities, has five coal docks in Chicago and one at Joliet. Other companies receiving huge tonnages of coal via water include Consolidated Edison in New York city, Philadelphia Electric Company, Duquesne Light Company, Ohio Edison Company, Appalachian Electric Power Company, Cincinnati Gas & Electric Company, Indiana & Michigan Electric Company, Kentucky Utilities Company, Union Electric Power Company, Interstate Power Company, Illinois Power Company, Alabama Power Company, and Dairyland Power Co-operative.

In looking to waterways for shipping



Q "As the principal source of energy for the generation of electric power, bituminous coal must be available in increasing quantities as generating capacity moves sharply upward. To continue to supply fuel efficiently and economically, the coal industry is making remarkable progress in both production and preparation of its product. The drastic reduction in cost of producing a kilowatt-hour of electricity—brought about through upgrading of coal and improved combustion methods—stands as a tribute to the genius and co-operation of the coal and electric utility industries."

PUBLIC UTILITIES FORTNIGHTLY

greater and greater tonnage, the coal industry has come back to the medium which took care of practically all transportation when mining was in its infancy in this country. The first shipment of coal mined commercially was sent down the James river in 1758, and as early as 1789 coal was moving on the Monongahela on keel boats. Before the dawn of a new century it was being shipped on the Ohio river to Fort Washington (now Cincinnati); in a few short years this service was extended to Louisville, then down the Mississippi to New Orleans.

WATER transportation got off to a mighty start with the growth of the coal industry partially because the streams themselves—by the erosion of their banks—disclosed the whereabouts of coal reserves. Just as oil industry pioneers learned of the existence of petroleum caches by observing the slick on a stream's surface—in the days before divining rods and twigs achieved their popularity as forerunners of the magnetometer and other modern devices—the budding coal operator utilized this geological service of nature and began digging in the vicinity of outcrops gleaming at water's edge.

When the nation was in its infancy, proximity to a waterway was a prerequisite in the planning of a population center. Thus, with early mines also located on streams, coal was transported almost exclusively on water until railroads began to make their appearance midway in the nineteenth century. At first this innovation had little effect on demand for water transportation, since by now the country was highly conscious of the value of coal for both domestic and industrial use and for the time being there was busi-

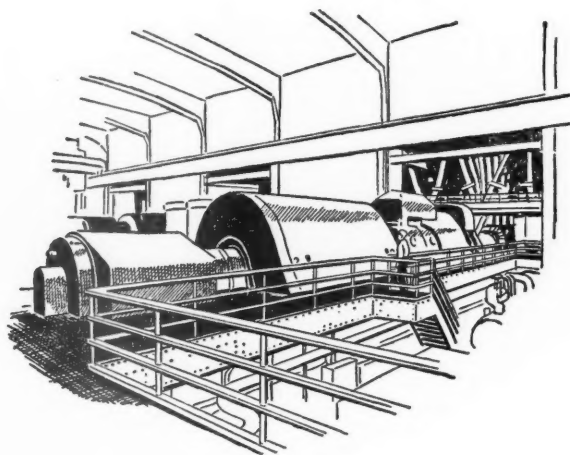
ness enough for everyone engaged in the coal-carrying trade—whether by river, canal, railroad, or turnpike.

As rails were extended, however, the lines began to acquire the bulk of the coal-hauling business. When the U. S. entered World War I 97.7 per cent of America's bituminous coal output was transported by rail. Trucks began to come in for a small share in the 1930's, and for the five-year period following the close of World War II, the transportation score board gave rails 86.1 per cent of the coal business, water 4.8 per cent, and trucks 9.1 per cent. Since then, railroads' slip is showing to a far greater extent, with the location of electric plants on navigable rivers obviously a major factor.

Currently only about 77 per cent of the total bituminous coal output moves by rail, whereas waterways now account for more than 10 per cent of the business or twice their share of a decade ago. As generating capacity is increased on river sites, railroads' losses to waterways are expected to become even more pronounced.

It has become axiomatic for the utilities to seek other avenues of coal delivery or other fuels if freight rates cannot be satisfactorily adjusted. As recently as 1954 large coal tonnages of the Duke Power Company were retained only by means of a reduction of 35 cents per ton in the rates on fine coal to the Carolinas. Except in instances where railroad management takes intelligent cognizance of the potential loss of business and is willing to reduce rates, the utilities' flight from rail-delivered coal continues at a rapid pace.

It is probably no secret that a power company in southern California is con-



Atomic Impact on Coal

“COAL operators foresee the eventual entry of the atom into the electric power business. They do not oppose competition from this new source of energy supply if it is developed by private enterprise. They vigorously object to this or any other form of competition that is created by government subsidization. Recalling the federal invasion of the power business through hydroelectric installations, the coal industry will continue to oppose similar moves that may be made during the 85th Congress through the medium of the so-called ‘crash’ program—or whatever other means might be employed to forward the case of the socialist planners.”

sidering the use of coal in one of its generating plants, contingent upon freight rates from mines in the Rocky Mountain region.

THE coal pipeline in eastern Ohio was constructed by an Oklahoma firm, normally a sign that one of coal's major competitors is entering a new market or stepping up its delivery potential. Instead of carrying oil or gas, however, the pipeline will move 1,200,000 tons of coal per

year from Belmont county, Ohio, to the Cleveland Electric Illuminating Company's generating plant at Eastlake. At the entry of the pipeline, specially prepared coal will be crushed and mixed with water to form a slurry, which will then be propelled by pumps through the lines at a rate of three to four miles an hour—the same rate at which oil moves through pipelines.

Cleveland Electric's engineers estimate that the Cadiz-to-Eastlake project will

PUBLIC UTILITIES FORTNIGHTLY

produce a savings of more than one million dollars per year over conventional shipping methods. This economy, combined with the "assured delivery" factor, would appear to emphasize that the pipeline must be reckoned with as a source of competition for all railroads serving generating plants—at least those within close proximity of coal-producing areas.

For moving coal from mines to generating plants over short distances, the conveyor belt is proving most satisfactory. A 4½-mile belt is carrying coal at the rate of 800 tons an hour from a mine to Ohio Power Company's 400,000-kilowatt Muskingum river plant near Beverly, Ohio. The coal moves through a wooded countryside, up and down hills, across several rural roads, over a state highway, and across the 500-foot wide Muskingum river.

A private 6-mile railroad, to be built and operated by the supplying coal company, will connect a mine with what is to be the world's largest generating unit, a \$58,000,000 plant of the Indiana & Michigan Electric Company on the Wabash river south of Terre Haute, Indiana. In the Clinch river area of Virginia, American Gas & Electric is putting up a 450,000-kilowatt plant and is investing extra money to build cooling towers because freight-free fuel outweighs lack of sufficient water.

EXTENDING electric power transmission over greater distances offers another approach to the problem of constantly increasing freight rates on coal. The highest voltage now in commercial service in the United States is 330,000, but utility experts believe that it will eventually be possible to operate 500,000-volt wires,

thereby decreasing line losses and permitting farther transmission. Under such circumstances, more and more generating stations would be located at the mine mouth.

INDUSTRIES requiring vast amounts of electric power are setting up plants in the midst of rich coal areas. An aluminum industry is being established along the Ohio valley in West Virginia and Ohio, with plants under construction by Kaiser Aluminum & Chemical Corporation and Olin Revere Metals Corporation. The significance of the program bringing coal into the aluminum picture for the first time was explained by Philip Sporn, president of the American Gas & Electric Company, which will supply electric power for the new industry. Mr. Sporn said:

Studies . . . revolved around the related economics of fuel cost for electric power, consumed virtually as a raw material in aluminum production, *vis-a-vis* proximity to markets, and involved gas, oil, water power, and coal.

As the demand for gas rose, so did the cost. It was soon evident that a point would be reached in the then not-distant future when the price of natural gas at the well would be pretty much in line with that of oil and with coal at the mine mouth. That point has been reached today.

As for water power, the diminishing number of remaining hydroelectric sites that are economically desirable, coupled with a severe limitation from which even the best of them suffer in being remote from centers of industrial activity and from markets, relatively makes hydro also unavailable as a source of large power supplies required

PARTNERS IN POWER: COAL AND THE UTILITIES

for the coming expansion of the American aluminum industry. That is almost completely so as far as the United States is concerned.

This brings coal and coal-based generation sharply into the picture. Where this coal lies on navigable water, and this is true in a large section of the Ohio valley, it offers today an ideal combination of favorable economic factors for the development of large-scale, economical coal supplies required in large aluminum reduction operations.

From a long-range viewpoint, this is even more promising. This is due to the fact that, where the coal reserves are ample, it is possible in many cases to develop operations at sites where reserves of from fifty to one hundred years can be made available. To this is added the fact that the technology of steam-electric generation is not only in a very highly advanced state in the United States, but there is great promise of further advances.

INDIANA coal will provide the energy for producing the power that will serve the aluminum smelting plant to be built by Aluminum Company of America near Evansville, Indiana. The mining company which has contracted to supply the coal

has reserves of more than 180,000,000 tons for handling its long-term commitments.

After a superficial examination of these and other prospects for coal, the casual observer might come to the conclusion that the industry's future will follow a favorable pattern that has already been cut out for it, that all coal needs to do is grow with the broadening economy. The truth of the matter is that the coal industry must maintain an advance position throughout the general upturn. Because of the uncertainty of world affairs it is desirable that the industry maintain considerable excess capacity if all demands are to be met in emergency periods. The industry's progress must therefore not be retarded by unnecessary roadblocks. It is to the mutual interest of coal and its consumers, and it is essential to the public welfare, that clear right of way be provided.

IN the coal industry's determined effort to offer the most Btu's at competitive costs in the fuels market, utilities have co-operated in protesting mounting freight rates. Understandably, this meeting of minds has not carried into the battle against some of the other threats to coal's economic betterment. In the case of im-



Q "In the coal industry's determined effort to offer the most Btu's at competitive costs in the fuels market, utilities have co-operated in protesting mounting freight rates. Understandably, this meeting of minds has not carried into the battle against some of the other threats to coal's economic betterment. In the case of imported residual oil, for instance, advantageously situated utilities have accepted this foreign fuel because it has been available at prices below the delivered price of any domestic product."

PUBLIC UTILITIES FORTNIGHTLY

ported residual oil, for instance, advantageously situated utilities have accepted this foreign fuel because it has been available at prices below the delivered price of any domestic product. Yet, many in the utilities industry must certainly sympathize with the efforts of coal people in seeking federal legislation to place a reasonable limitation on the amount of foreign residual oil that may enter this country.

In the first place, the coal industry cannot be expected to follow through with a vigorous expansion program if its markets are usurped by alien products. Overproduction and depressed prices which are a consequence of such conditions do not make for a healthy situation in any industry, particularly in one where efficiency of operation depends in large measure upon consistency of operation.

OF equal importance is the national security consideration. When mining companies are deprived of legitimate markets, it is not good business to expand capacity or even keep properties in a "ready" status. Should another emergency develop, traffic in ocean shipping lanes would be disrupted and tanker movement menaced. As in the past, the utility companies now on foreign oil would turn to the coal industry to meet the resultant deficits, but the ability of our industry to satisfy the new demand would depend directly upon the strength that it was able to muster in the interim period.

From 1938—the year preceding the outbreak of World War II—through 1944, America's bituminous coal requirements increased by 75 per cent. Fortunately, time was on our side and the coal industry had ample opportunity to expand capacity. In

any new conflict, it is doubtful that the free nations would have anything approaching seven years to prepare for their major campaigns.

ANOTHER issue of concern to segments of both the coal and utility industries is the dumping of natural gas into electric-generating plants during the non-heating season. Gas at bargain rates is of course an attractive commodity to purchasing agents, but none should lose sight of the fact that Mother Nature's gas reserves cupboard is already showing signs of growing thin. As the search for this fuel is intensified, production costs go up. Again, coal must be ready to take over. We in the coal industry believe that we are justified in asking for a cessation of the gas-dumping practice, not only because it is contrary to accepted standards of competition in a free economy, but also because it tends to deter our industry from preparing for its future assignments.

Another of coal's problems which should have the attention of those who must rely upon coal in the years ahead is the inequitable rate of depletion allowance granted by present law. Whereas both oil and gas are granted 27½ per cent, coal is allowed only 10 per cent. In order to attract the necessary capital to maintain and expand coal's productive capacity, the coal industry should be granted a more adequate rate.

The development of an atomic electric power industry resolved itself into an issue of extreme controversy during the past year, but here coal and the utilities have thus far been in general agreement regarding the federal government's participation in the program. Both industries, recognizing that opportunities for fur-

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ther socialization of the electric utility business abound within federal reactor projects, have protested attempts of federal power advocates to secure U. S. Treasury funds for plants that would go beyond the experimental stage.

COAL operators foresee the eventual entry of the atom into the electric power business. They do not oppose competition from this new source of energy supply if it is developed by private enterprise. They vigorously object to this or any other form of competition that is created by government subsidization. Recalling the federal invasion of the power business through hydroelectric installations, the

coal industry will continue to oppose similar moves that may be made during the 85th Congress through the medium of the so-called "crash" program—or whatever other means might be employed to forward the case of the socialist planners.

THE electric utility industry will provide all the power that is needed, when it is needed, without undue interference on the part of the federal government. Similarly, to continue as the utilities' lifetime partner in power, the coal industry needs only to be freed of the unfair restraints and unfair competition that have been imposed through unwise government policies.

How to Go Backward

"ONE of the most common complaints levied against our hit-and-miss system of letting people choose their own occupations is that the country has no way of being sure we will get the right number of doctors, engineers, schoolteachers, and the like.

"How much better it would be, say the planners, to have a government bureau give some conscious thought to this—plan for this many medical or engineering students this year so that we would have the proper number of doctors or engineers a decade hence.

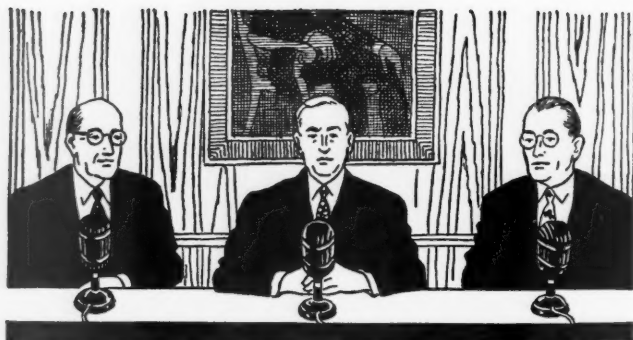
"Well, in 1949 the Labor Department surveyed the situation and advised college students that there was an oversupply of engineers and would be 'for several years.' Now, says the chairman of the Atomic Energy Commission, 'we are paying a heavy price for such errors. Engineering was de-emphasized at a time when we should have been building a reservoir of skilled man power . . . we have lost both valuable time and talent.'

"To be sure, this is hindsight. Nobody can blame the Labor Department for not seeing the 1956 situation in 1949.

"But just the same it's too bad too many young people heeded the prophecies of statistical projection by the experts. And it's a darned good thing the government didn't have the power to control people on the basis of the experts' predictions and that a few youngsters decided to disregard the good advice. Otherwise we'd have even fewer engineers.

"It wouldn't take much of this kind of forward planning to make us a backward nation."

—EDITORIAL STATEMENT,
The Wall Street Journal.



Regulatory Check List for State Security Issue Cases

What do state public utility commissioners think about; what tests do they apply; and what rules do they follow in cases before them involving applications by utility companies for security issues? Here is a down-to-earth, practical description of the standards and routines which this author believes state commissions will find helpful in handling such proceedings fairly and with dispatch.

BY THE HONORABLE JOHN P. THOMPSON*
MEMBER, COLORADO PUBLIC UTILITIES COMMISSION

UTILITY plant expansion has been so rapid, these recent years, that internal funds have been wholly inadequate to the need. State regulatory agencies have consequently noted an increase in the number of applications for approval of utility security issues. Proper evaluation of these applications requires marshaling of all the pertinent data. This article is intended as a guide in this important commission function.

Larger companies, adjusted to regulation, routinely assemble and bring forward at these hearings the data usually required for final, and favorable, resolution of these applications. However,

smaller companies, exempted from some of the requirements of the Uniform System of Accounts, and inexperienced in regulatory practice, often overlook data the commission may consider to be important. These stripling companies are less able to withstand economic reverses: their investment and clientele being smaller, they are more likely to be wiped out by unfortunate financing agreements. Regulatory agencies consequently examine applications of smaller companies closely; but they do so under handicap of limited basic data on the company's books, and lack of knowledge on the company's part as to what information is ordinarily desired.

It may be of value to these companies,

*For additional personal note, see "Pages with the Editors."

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therefore, as well as to the regulatory agencies, to have a regulatory check list (which is different from a security analyst's list) of the information which may be desired. Finding no such list in my research, I have composed one for my own use, and offer it now for whatever value it may have. It can doubtless be improved. Suggestions from readers will be gratefully received.

THE following questions cover a broad area; the list will of course be abbreviated in dealing with large, long-established utilities. In particular cases, answers to some of the questions may indicate that more detailed investigation is warranted along the lines suggested by the question. The list is only a guide, not a mechanical device for evaluating proposed security issues. Nevertheless, it is hoped that it will prove to have some value to the reader.

1. Does the commission have jurisdiction over the securities of this type company?

2. Does the commission have jurisdiction over the type of security which is to be issued?

3. Is the proposed use of the proceeds a use for which the commission is authorized to approve a security issue?

The first problem which requires resolution in every security proceeding is the jurisdiction of the commission to act at all. This is a matter of statute entirely; the local statute should be reviewed frequently. It is enough here to say that three jurisdictional aspects are usually involved: the type of company whose securities are to be regulated, the type of

security which is to be issued (some statutes exempt short-term financing from commission regulation), and the purpose for which the funds are being obtained. This jurisdictional check-off, while it is usually academic, sometimes turns up interesting problems. A recent one, for example (New Mexico),¹ was whether the commission has authority to approve a note and mortgage, the proceeds of which were to be used for nonutility purposes. Under some statutes, the commission may lack authority to approve a stock split, particularly if the assigned value per share is not being reduced accordingly (Wisconsin)²; or to approve stock issued pursuant to an employee stock plan (Maryland).³

4. What beneficial use is to be made of the proceeds?

5. Upon what data were the estimates of capital requirements based?

6. Will internal funds be used to the extent possible, to provide for some or all of these requirements?

7. Is the entire amount needed now, reasonable to accomplish the objectives?

HAVING determined that we *can* act, we turn to the propriety of acting. We look into present and estimated future growth, and the present need of the company to do any outside financing at all. In this regard, it is pertinent to inquire into the methods used to forecast future demand. It must be confessed that the great value of this inquiry is usually in obtaining business growth information useful in discharging other commission

¹ Re City Gas & Electric, Inc. 12 PUR3d 378.

² Re Community Teleph. Co. 8 PUR3d 107.

³ Re Baltimore Transit Co. 4 PUR3d 151.

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duties, rather than in the case at hand, but the information obtained here comes from well-qualified informants, and it is well to get it while we can.

8. Does the information which is to be given to the public amount to a full and fair disclosure?

THIS will be recognized as a blue-sky inquiry. Many state securities laws specifically exempt from their operation utility securities issued under supervision of a utility regulatory agency. We thus appear to have some duty to the investing public with respect to such statutes, even though in many instances, and particularly in private placements, the investor is an informed investor. Doubtless it is difficult in these times of the Uniform System of Accounts to conceive of kited property values and such, but the instance has been known, and it does no harm to make just one more verifying check. It will be remembered that the smaller utilities, class C and D, are not required to set their books up on an original cost basis.

The Uniform System, usually relied upon as a guide to sound financial practice, therefore cannot be relied upon, as

to smaller utilities. Review of the information which is to be given to the public, by prospectus or otherwise, therefore seems warranted in all instances exempt from other state or federal regulation, to insure a full and fair disclosure.

9. Will the company's income be sufficient to meet, with a reasonable margin of safety, the fixed charges involved?

This is not a blue-sky consideration, as it may appear; its significance is regulatory.

THE obligation to pay dividends on common or preferred stock is often considered to involve less hazard than obligations arising from debt securities. All will agree, however, that the passing of any payment is damaging to the company's reputation, and tends to result in higher cost of future capital. Security buyers and regulatory agencies in common, therefore, seek assurance that out of present income, the company will be able to meet the proposed fixed charges promptly, with some margin of safety against declining revenues.

Of many methods used to make this



Q "THE first problem which requires resolution in every security proceeding is the jurisdiction of the commission to act at all. This is a matter of statute entirely; the local statute should be reviewed frequently. It is enough here to say that three jurisdictional aspects are usually involved: the type of company whose securities are to be regulated, the type of security which is to be issued (some statutes exempt short-term financing from commission regulation), and the purpose for which the funds are being obtained. This jurisdictional check-off, while it is usually academic, sometimes turns up interesting problems."

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evaluation, the more common ways are to calculate, in connection with a proposed *debt* issue, the number of times the total interest charges would be earned on a *pro forma* basis, *before* income taxes, for the latest fiscal year of record; or, in connection with a cumulative stock issue (dividends not being tax deductible), the number of times the total interest charges and annual dividend requirements would be earned *after* income taxes on a *pro forma* basis.

In applying any method, the economic hazards of the area served must of course be considered: such hazards, for example, as the cyclical nature of the area's economy; in agricultural areas, the effect of moisture or lack of it, say on pumping load; and the significance of single large industries, not only as to load, but also the effect on the entire community if shut down due to strike or other hazard.

10. What percentage of total capitalization will have voting rights?

Having determined that we can and should act, and that the proposal is financially feasible, we inquire whether the financial structure of the company will be sound after the transaction is completed. It is pertinent to inquire, at this stage of the proceeding, about voting control, debt ratios, fixed charge position, and the condition of the company in light of its likely future need for outside capital.

IN this capital-gains conscious era, inquiry into the percentage of the total capital which has voting rights is becoming increasingly significant. A growing number of companies appear to be purchased or founded, not so much with a view to long-continued operation, as with

eyes fixed upon capital gains prospects. This is not evil; still, it must be recognized that some of the financial and control methods used in maximizing capital gains may occasionally conflict with sound regulatory practice.

Occasionally a purchase will be financed (usually by an insurance company) on a fixed-charge basis, the only voting stock being issued for the small "down payment" which the financing agency requires of the promoter. The financing agency settles for severe protective provisions, but takes only default voting privileges. If the company makes a reasonable profit, the dollar amount remaining after fixed charges constitutes a rather high percentage return upon the small amount of common stock. This combination of high-control leverage and large percentage return upon common stock offers an opportunity to make startling capital gains, percentage-wise, as debt is amortized, particularly if funds available for dividends are used for debt reduction. Such situations may tend naturally to divert the attention of management from public service to financial manipulation.

THE regulatory problem is that these mathematics also operate in reverse; a small dollar recession can quickly reduce revenues to the point where nothing remains—or worse, a deficit—after fixed charges. The thin margin of risk capital is then wiped out, and the company faces critical financial problems. The service to the public certainly falters, if it does not stop entirely.

Regulatory agencies therefore do not routinely approve a thin equity component, merely because the promoter and fi-



Management's Financial Control

"RUNNING through statutes of various states is a thread clearly seen: The generally accepted view that the choice of the method of obtaining the money and the selection of the various terms upon which the securities are to be offered is a function of management, in which the commission should not attempt to intervene, subject only to the paramount requirement that the method and terms not be contrary to the public interest."

nancing agency are willing to risk it.

Opinions differ as to what the minimum percentage of risk capital should be. However, the Federal Power Commission seems to feel that common equity even for a natural gas company should not drop below 15 per cent.⁴ The financing of Pacific Northwest Pipeline Corporation,⁵ in connection with its new line, was also undertaken on that basis.

11. Is the financial statement, upon which capitalization ratios are calculated, current?

THE latest annual report is usually entirely satisfactory, when adjusted to show changes in short-term debt and security issues, if any, occurring since it was compiled.

⁴ Re Permian Basin Pipeline Co. 3 PUR3d 286; Re Northwest Nat. Gas Co. 6 PUR3d 403, 415.

⁵ Re Pacific Northwest Pipeline Corp. 11 PUR3d 390.

12. What is the company's debt ratio, actual and *pro forma*?

OF capitalization ratios, the debt ratio probably receives the greatest attention. In raising a given amount of capital, when interest is tax deductible, net income will of course be improved, through tax savings, if debt securities are issued, rather than equity securities. In addition, when cost of capital is considered, debt capital is low-cost capital, tending towards lower rates. It is therefore generally advantageous to issue debt securities to the limit which is safe for the long pull for the particular utility. If management refuses to do it, regulatory agencies have been known to strive for lower rates by assigning hypothetically higher debt ratios in rate cases, in the case of companies whose securities the commission does not regulate, computing cost of capital then on the basis of these hypothetical ratios.

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Where the company's securities *are* regulated by the commission, it naturally determines, at the time it considers the security issue, whether the resulting ratio would be acceptable in a rate case.

THERE is a ceiling to debt ratios, of course. Increasing debt ratio finally lowers the company's financial rating, with the result that it will be required to offer higher yields to dispose of future security issues of *all* types. The hazards inherent in using up the company's available "bondable additions," thus hampering it in obtaining additional funds, are also present. Also, service of fixed charges may become a critical problem in an economic recession.

Again, there is no fixed percentage of debt applicable to all utilities, where it may be said that the advantages and disadvantages are in equilibrium. Certainly, the stability of revenues of any company has a bearing upon the extent to which it may rely upon debt service capital. Perhaps large electric companies with diversified loads, and thus with stable revenues, can safely have higher debt ratios than say telephone companies. In two cases, both involving long-term assured revenues from government AEC contracts, SEC on the particular facts approved electric utility debt ratios of 94.2 per cent and 97½ per cent.⁶ On the low ratio side, it is often said that the Bell system is *too* conservative in contending for a consolidated debt ratio in the range of 35 per cent; still, it must be recognized that management has a long-term responsibility, as to financial stability, which no commissioner has.

⁶ Re Mississippi Valley Generating Co. 7 PUR3d 408; Re Ohio Valley Electric Corp. 9 PUR3d 584.

13. Is any major expansion on the horizon, beyond the presently proposed expansion?

CONCEIVABLY, this present financing may adversely affect future financing which may foreseeably become necessary. Large amounts of capital are of course more readily obtained with senior securities than with capital stocks. Bondable additions have already been mentioned. Entirely aside from considerations of higher costs of future financing, then, it may be important for the company to be gathering strength now, by concentrating for the present on equity issues, if there is likelihood of heavy new demand for outside capital in the foreseeable future.

14. Is the term of the financing commensurate with the use which is to be made of the proceeds?

The *method* of financing proposed should be in harmony with the proposed use of the funds obtained. This is a question of long- and short-term financing. Although the markets for the two types of funds are not identical, there is a recognizable relationship between prime rates of interest, upon short-term bank loans, and rates for longer terms, the longer-term rates usually being higher. The lower short-term rates may thus appear more attractive to management. But utilities necessarily have a very high fixed investment in plant, when compared with other industry; the cost of this plant is recovered only over many long years. It is an uncompromising certainty, then, that short-term loans are going to have to be refinanced, if the proceeds go into plant or working capital. In this era of rising national income, the Federal Re-

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serve Board has repeatedly raised the discount rate, as part of its effort to control the boom. This causes a rise in interest rates.

The short-term borrower, by putting off the day of long-term refinancing, has therefore found itself obliged to pay higher rates when it did refinance, precisely because it put off its long-term financing.

IF the economy were to go the other way, the short-term borrower needing to refinance in the face of declining revenues, and with short-term money already committed in plant, might find itself unable to refinance. As financial difficulties breed more financial difficulties, this embarrassment might be only the beginning.

15. Is the source of the proposed new capital a related company?

Having now arrived at approval of the issue in the form and size proposed, our concern becomes to be assured the money will be obtained at minimum cost.

If this company is obtaining its long-term funds from a related company, further examination of the transaction may be warranted. This company may possibly be hampered in expansion; its ability to obtain funds may be limited to the other's ability to supply them. It may be that this company is growing large enough that it

should begin to obtain its own money, thereby establishing channels and reputation for future financing. At minimum, it would appear that any savings the related company is able to make should be passed along to this one.

16. Is the issue to be competitively bid?

The problem of competitive bidding is one of many facets. It should be the subject of a separate paper; space limitations here prevent any extended discussion of the dangers, real and imagined, of privately negotiated placement of securities. The principal claimed advantages of competitive bidding seemingly lie in the appearance of blamelessness; preventing any one financial house from staking out a claim upon companies in your state; and the conclusiveness, if the issue is entirely disposed of without difficulty, that the best price obtainable was had.

ARRAYED on the other side are grave risks. None of us needs to be told the damaging consequences to a company of failure to place all of an issue. Indeed, it is to insure that all of the issue *will* be taken that we have the underwriting industry.

Nor is a company in the best position to negotiate privately, after it has failed competitively. Too, the time lag be-



Q "... there is no fixed percentage of debt applicable to all utilities, where it may be said that the advantages and disadvantages are in equilibrium. Certainly, the stability of revenues of any company has a bearing upon the extent to which it may rely upon debt service capital. Perhaps large electric companies with diversified loads, and thus with stable revenues, can safely have higher debt ratios than say telephone companies."

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tween the decision to raise capital, and the actual placement, may itself result in loss, as the door of risk is necessarily held open for a longer period. The expenditure required even to make a competitive offering also deserves consideration. Finally, many small companies, and some issues of larger companies, are too small to arouse competitive interest.

THUS, though the theoretical advantages of competitive bidding may be set in a bed of thorns, it would seem that the advantages and disadvantages should at least be considered in each instance. Indeed, many commissions have rules which require that it be considered. I have made no study to determine what percentage of the time the rule was waived. From the fact that many industrial and large utility issues still go competitive, we may conclude that competitive bidding does offer advantages in certain instances. Perhaps the very next one you consider will be such a one; you will never know, unless you examine it to see.

17. How was the estimate of cost of servicing the security issue made?

Unless competitive bidding is had, inquiry appears to be in order to determine whether the service charges involved are reasonable. They should bear reasonable relationship to the prime rate of interest and to recent offerings of similar type by similar companies, in the circumstances of the case; any significant differences from previous similar issues of the company would appear to warrant explanation.

18. If the security is a bond or preferred stock, what redemption privileges does it contain?

THESE securities are ordinarily made redeemable at some premium above par, so that the company may refund them if more favorable financing conditions occur in the future. Provisions that no redemption shall be permitted for the first three years, or five, or that the maximum premium shall apply for such a period, are not usually considered objectionable.⁷ The amount of the premium is of particular concern.⁸ A common premium seems to be the amount of one year's interest; thus a 5 per cent preferred stock sold at \$100 par would be redeemable initially at 105, the price decreasing to 100 over a period of years.

19. If the issue is being offered to present stockholders: (a) how was the offering price determined; (b) what is the book value of present issues of the same kind; (c) give examples of recent arm's-length sale prices of similar securities of the same company; and (d) what is the company doing with a view to obtaining the largest possible placement?

Space does not permit analysis of the many problems involved in offering securities to present stockholders. Pre-emptive rights aside, there appear to be many considerations on both sides, for and against. However, if the company does turn to its stockholders, it may be disappointed (a blow to its prestige and to management) if the price is a little too high; and the risk is run that the commission may give the company unfortunate publicity, if it deems the offering price to be too low. The propriety of

⁷ Re Brooklyn Borough Gas Co. 60 PUR NS 193; Re Kings County Lighting Co. 62 PUR NS 193.

⁸ Re Long Island Lighting Co. et al. 73 PUR NS 266.



Built-in Investor Protection

"PROTECTIVE provisions demanded by security purchasers require that the company engage in certain named conservative business practices, so that the property pledged, and the fixed charges involved, will certainly be secure. Thus, for example, a limit may be placed upon the amount of total debt the company may incur, in relation to its fixed assets; or it may be required to establish a maintenance and depreciation fund, into which say 15 per cent of gross revenues must be paid annually. There are many ways of getting at the same end result, but, in every case, protection of the security holders is the objective."

compensating security dealers, as a method of encouraging them to seek out subscribers, thus increasing the likelihood of success, is thoroughly considered in PUBLIC UTILITIES FORTNIGHTLY, November 11, 1954, page 617,⁹ and February 17, 1955, page 177.¹⁰

20. What is the justification for the particular level of placement costs?

Placement costs—underwriting costs and finders' fees—vary greatly, de-

pending upon a multitude of factors, including the bargaining situation, so that no great degree of precision is possible in evaluating their reasonableness. Past experience of the company with the financial agency is pertinent, however. The circumstances and places of the meeting between the two are often helpful. The absence of business or other relationship between officials of the two organizations also tends to relieve strain.

21. What are the particular amounts of the placement and preparation expenses involved in this issue?

22. Is the company prepared to

⁹"A Technique of Offering Common Stock through Rights," by John F. Childs.

¹⁰"Management Looks at Dealer Compensation," by Jackson Martindell.

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make a report to the commission after the transaction is completed, showing proceeds, expenses, and their accounting disposition?

Preparation expenses — registration and filing fees, taxes, printing, mailing, attorneys' fees, transfer agent fees, commissions paid dealers, etc.—are necessary expenses of the actual issuing process.

As they do not vary greatly, according to the size of the issue, they will bulk large in a small issue, but are insignificant in a large issue. Either way, possible savings appear to be minor, as the dollar total of the items is small. As a matter of routine, it is considered desirable to require a report of the particular expenses incurred to be filed when the transaction has been completed.

JUST in passing, it is no answer to any problem, of course, to say that these and other expenses are not our concern, since they are ordinarily not taken "above the line." If stockholders are to remain content and the company's reputation is to flourish, the number of expenses a company can absorb is limited. Experience indicates that sound, stable companies give the public the best service. Each expense should therefore have merit.

23. How was it determined that the offering should be made at this time, rather than at some later time?

The rule of thumb in the utility industry seems to be: get the money when you need it. As these companies are in the business for the long term, this dollar-averaging policy is doubtless a sound one. However, a difference of even a few weeks in timing may make considerable

difference in the cost of servicing an issue. It is this short-term timing which concerns us, as it is probably the most important of the delicate arts of obtaining money at the lowest cost. As nearly as I can determine, people are just born with this talent. For those not so fortunately endowed, surely all know that Irving Trust Company keeps a diary of proposed financing, so that a company may choose as slack a time as possible to offer the new securities. This of course is only one factor of many involved, but no doubt it is some help.

24. What protective provisions are required of the company?

25. In light of its recent financial history, what changes in its financial policy will it have to make to comply with the protective provisions?

PROTECTIVE provisions demanded by security purchasers require that the company engage in certain named conservative business practices, so that the property pledged, and the fixed charges involved, will certainly be secure. Thus, for example, a limit may be placed upon the amount of total debt the company may incur, in relation to its fixed assets; or it may be required to establish a maintenance and depreciation fund, into which say 15 per cent of gross revenues must be paid annually. There are many ways of getting at the same end result, but, in every case, protection of the security holders is the objective. So far as I have been able to determine, the NARUC Committee on Corporate Finance has never made any recommendations as to standardizing or limiting indenture provisions. Although its provisions are directed at protection of investors and at codifying a trustee's

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duties under an indenture of trust, and not at utility regulation, mention should be made of the Trust Indenture Act of 1939 (15 USCA 77 aaa to bbbb).

While these conservative practices are usually of the exact kind the regulatory agency would like to see adopted, and are therefore approved routinely, they can become onerous. When this happens, the company is placed in a financial strait jacket, and may lose the flexibility which it must have in its operation, if it is to serve the public efficiently. Thus the California commission recently rejected, as being too inflexible, a protective provision which would have prohibited a utility from doing any further financing unless in doing so it could keep its debt ratio under 50 per cent.¹¹

26. Is this proceeding being coordinated with such proceedings as may be required before SEC, FPC, and the state securities agency, so that any securities issued will be lawfully issued?

IN many instances, the security issues of the company being considered are subject to regulation by both federal and state governments. However, when this occurs, it is ordinarily not a question of

which power may eclipse the other, but only a matter of seeing that indeed all clearances which need to be had, have been obtained.

IN the investor-protection, or blue-sky field certain clearances may be required from the Securities and Exchange Commission pursuant to the Securities Act of 1933 (15 USCA, § 77), the Trust Indenture Act of 1939, noted above, or the Public Utility Holding Company Act (15 USCA, § 79); or from your state securities commission. On the utility regulation side, if the company is an *electric* utility subject to the jurisdiction of the Federal Power Commission, regulatory approval of that agency may (with certain exceptions: see 16 USCA 824) be a condition precedent to the validity of any securities issued. However, if it is a natural gas utility, even though subject to FPC jurisdiction, no direct approval or authority of FPC is required to issue and sell securities. Nevertheless, certificates of public convenience and necessity issued by FPC to such a company should be reviewed, to see that the financing proposed is consistent with the representations made by the company to FPC, and recited in the statement portion of the certificate.

¹¹ Re Southern California Gas Co. 9 PUR3d 104.



Q "MOST state statutes require that some fee be paid, related to the value of the securities to be issued, as a charge for the issuance of the certificate authorizing the security to be issued, unless the issue is merely a stock split, not increasing total capital. The calculation of this fee is a matter of simple mathematics, unless the company involved happens to operate in more than one state. It then becomes appropriate to determine what proportion of the proceeds are to be used within the state, so that the fee can be assessed on that proportion."

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27. How is it proposed to account for the expenses and the amortization thereof connected with this security issue?

CONSIDERATION must of course be given to the accounting treatment of expenses of issuing the securities. It may be that the company will charge them off currently; if not, an appropriate amortization period must be determined. A specific order setting the period may be desired, whatever amortization period the commission finally settles upon.

It will be noted that the accounting treatment of expenses connected with issuing debt securities rests upon entirely different theoretical considerations than the treatment of capital stock expense. The Uniform System of Accounts provides, in connection with debt expense, that unamortized debt expense shall be debited to Account No. 140, to correspond to a credit to cash in Account No. 120. Amortization of debt discount and expense is debited to Account No. 531 (below the line), corresponding to a credit to unamortized debt expense, Account No. 140.

In connection with capital stock, the expense is debited to Account No. 151, with credit to cash, Account No. 120. The expense is debited to miscellaneous debits to surplus, Account No. 414 (a direct charge to surplus), with credit to capital stock expense, Account No. 151.

28. What proportion of the proceeds of the security issue will be used within the state?

MOST state statutes require that some fee be paid, related to the value of the securities to be issued, as a charge for the issuance of the certificate authorizing

the security to be issued, unless the issue is merely a stock split, not increasing total capital.¹² The calculation of this fee is a matter of simple mathematics, unless the company involved happens to operate in more than one state. It then becomes appropriate to determine what proportion of the proceeds are to be used within the state, so that the fee can be assessed on that proportion. When this proportion cannot be determined, due to the particular circumstances of the case, then it is considered proper to use the proportion of the present total assets of the company which are situated within the state as the basis for calculating the fee.

29. Are any of the aspects of the proposed issue which we feel are deficient, of such grave consequence that we must affirmatively find that it would be contrary to the public interest to allow these securities to be issued upon the terms proposed?

WE have now gleaned all of the information which we need, to determine what action is indicated. This information in mind, we ought again to consider the basic statutes under which we authorize securities to be issued. Running through statutes of various states is a thread clearly seen: The generally accepted view that the choice of the method of obtaining the money and the selection of the various terms upon which the securities are to be offered is a function of management, in which the commission should not attempt to intervene, subject only to the paramount requirement that the method and terms not be contrary to the

¹² *Lake Superior Dist. Power Co. v. Public Service Commission* (Wis Sup Ct 1947) 71 PUR NS 317, 250 Wis 39, 26 NW2d 278.

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public interest.¹³ A North Carolina court even went so far as to say that the debt ratio remains a matter of managerial discretion until it reaches the point of danger of insolvency, thereby affecting the ability of the utility to serve the public.¹⁴

THE regulatory authority granted in many statutes, including Colorado's, is carefully couched in such language that the commission has bare authority only to approve or to disapprove the issue, and to do nothing else. This is in keeping with the widespread belief, evidenced by the decisions, that as management is in the market place and aware (as the commission cannot be) of the many intangibles present there, and has the full burden of the risk of loss if its judgment is bad, the commission should not attempt to substi-

tute its judgment for that of management except in the most clear-cut cases, and then only if it affirmatively finds that the public will be injured by the proposed security issue.

IT may be expected that the great majority of security applications will be approved. Any sound, carefully considered financing plan will hold up under close scrutiny. Proper and regular use of a complete check list usually results in reassurance to a commission that all is well, for a utility management which carefully assays its financing requirements and opportunities is likely to be equally efficient in its service to the public. Properly performed, therefore, a security proceeding is a very satisfying one, one which refreshes a commission's faith in the efficiency of management. For its part, management likes to see the matters it has so carefully worked out, receive careful attention. Regular use of such a check list therefore has much to recommend it.

¹³ Re Milwaukee Gas Light Co. (Wis 1946) 63 PUR NS 158; Re New York State Electric & Gas Corp. (NY 1953) 98 PUR NS 251; Re Pioneer Nat. Gas Co. (NM 1955) 8 PUR3d 31.

¹⁴ North Carolina ex rel. Utilities Commission v. Carolina Teleph. & Teleg. Co. (NC Super Ct. 1955) 8 PUR3d 439.



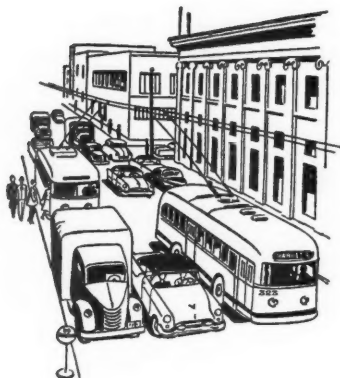
Magpies Ring Aussie Phones

MAGPIES are being blamed for a record number of mysterious telephone calls.

When complaints were received that phones would ring at all hours, technicians investigated hundreds of miles of telephone wires and noticed a number of magpie nests on telephone poles. Further study revealed that the magpies, who like to use metal strips to build nests, were working scraps of wire into the telephone lines. These produced electrical impulses, sometimes enough to set off switches in automatic exchanges and dial a number.

As quickly as linesmen pulled down the nests, the magpies rebuilt them with discarded bits of telephone wire. Finally it was decided to build special nests for magpies, suspended by a small metal bracelet from the top crossarms of telephone poles, well above the sensitive wiring. More than 100 such nests have been erected and the magpies no longer interfere with the telephone system.

—SCIENCE SERVICE.



Transit Survival Poses "Ingenious Paradox"

The paradox of the transit industry today may be stated simply in two propositions: (1) Never in the history of the country has the outlook for increased demand and expanded facilities for public transit been so plainly indicated as in this day of rapid creation and growth of cities, suburbs, satellite cities, and newly developing residential areas generally. (2) Never has the outlook for over-all prosperity for the transit business been so cloudy.

By HERBERT BRATTER*

THE "most ingenious paradox" posed in Gilbert and Sullivan's *Pirates of Penzance* has nothing on the paradox posed to the cities of this and other countries by the transit industry. For, as our cities grow in population and area, spreading ever farther into the suburbs, the maintenance of transit services becomes ever more indispensable, while the numbers of riders, revenues, and profits decline and operating costs mount. The private automobile has a double responsibility here: (1) the decline in transit patronage in the face of growing populations, and (2) the interference with the

flow of city traffic which thereby increases transit operating costs.

The short-range economic outlook for transit is bleak, whether it operates under private or municipal ownership. Yet, until the day arrives when there are really "two cars in every garage" and a garage with every housing unit, we are going to need transportation for the public. Hence, even though some transit companies have been driven to the wall, the function of public transit must somehow go on. There must be service that is commensurate in some limited degree, at least, with the population growth and community development. Indeed, the very evolution of new suburbs and satellite cities creates en-

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tirely new transit service demands over and above the improvement and expansion of existing facilities.

OVER the years more and more companies have passed into municipal ownership. This change merely transfers the headaches from business management to public officials and, of course, the ever-burdened taxpayer. City officials realize that operating transit lines is a thankless job without the prospect of profit. Public ownership, we have learned, does not increase revenues or diminish costs. Rather, it tends to aggravate waste and inefficiency, opens the door to graft, and makes a perfect setup for ever-increasing union demands and featherbedding practices. Groping for a way out of the dilemma other than by public operation, more and more officials are turning to the possibilities of tax relief for privately owned transit and even outright public subsidy of private companies.

In this avenue of thinking there is logic, for to burden a sick industry with taxes makes no more sense than to overload and belabor a sick horse. Like the latter, the sick industry needs medicine, not more problems. Based upon Census Bureau projections of population and the trends of city expansion we have seen since the war, we can be certain that the nation's transit *needs* will continue to grow over the next decade and more. In other words, the transit problem is not going to shrink. Hence the paradox of *increasing* demand against decreasing revenue and profitable operations.

Those who advocate tax relief and subsidy for transit companies point out that, as patronage has been diminishing and fares have been rising, more and more of

the burden of supporting city transit has been falling on the lower-income groups who cannot afford the luxury of private cars or taxis. In other words, the real economic load falls on that class of society *least* able to bear it.

JUST by way of an example, consider Washington, D. C., where so many of the government workers are furnished with publicly owned indoor or outdoor parking spaces while more and more modern office buildings supply parking facilities for their tenants. In this connection the observation is made that even private car owners who never, or only rarely, set foot inside a streetcar or bus from one end of the year to the other are the *beneficiaries* of transit. Therefore, they should help, through taxes, to support it. Consider the fact that these higher income groups use the services of household help, office help, and many others who are regular transit passengers. Suburban householders insist upon the maintenance of public bus schedules for the benefit of their schoolchildren, maids, and cooks, although they do not themselves use transit excepting when their cars are not available. They also are beneficiaries of public transit services. Without it the value of their investment in their businesses and homes would decline and in many cases the operation of their businesses would become unprofitable.

Testifying at a Senate hearing on the District of Columbia in 1955 Robert M. Weston, then a member of the District of Columbia Public Utilities Commission, pointed to this very fact; *i.e.*, that low-income groups were subsidizing transit. He said:

The subsidy involved comes out of the

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lowest-income groups in the District. It is the lowest-income groups which are compelled to ride transit—the lowest 20 per cent income earners. It is the thought in connection with promotion of tax relief, for instance, that as transit needs relief the relief ought to come out of the general community because it is rendering a community service, and that this subsidy, I would want it stressed, is being paid by . . . transit riders at the present time and not by the community at large. The community at large, for instance, pays for free school lunches, quite properly.

HARRY J. WALKER, Howard University professor of sociology, testifying at other hearings in Washington in 1955, made the point that public transit must depend on high population density areas in the central part of the metropolitan area for profitable operation, areas inhabited largely by families in the lower-income groups.

Abandonment of transit services would throw an added burden on the city, he stated, saying:

Students of the problems of transportation and traffic recognize that some form of public transit must be maintained. This is not merely a recog-

nition of the need for public service to transport people, but as an essential means of reducing the volume of automobile traffic. Large urban centers cannot provide either adequate thoroughfares or parking facilities to handle the increase in automobile traffic which would result from the abandonment of transit service.

Professor Walker's last statement is confirmed by the situation which prevailed in Washington during the 1955 strike against the Capital Transit Company, when cars were parked in the middle of Pennsylvania avenue and all over the city in normally prohibited places, while the rush-hour traffic jams required almost the entire attention of the exhausted police force.

THE financial problem of transit was brought forcefully to the attention of the Congress by the crisis which developed from the Capital Transit Company strike of 1955.

For a while it appeared that the District of Columbia would have to run the transit system itself. In the act of July 24, 1956, granting a franchise to the newly formed D. C. Transit System, Inc.—successor to the Wolfson interests—the



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Congress provided for the determination of motor vehicle fuel taxes on the company by the operating ratio in such manner as to avoid reducing the company's rate of return below $6\frac{1}{2}$ per cent. In further recognition of transit's burdens the act exempted the new company from the D. C. gross sales tax, the compensating use tax, the motor vehicles excise tax, the mileage tax, and, to the same extent as the predecessor company, the taxes imposed upon tangible personal property.

BOTH nonstrangling taxation and intelligent fare policies are necessary if mass transit is to be kept alive. These thoughts are expounded in the following statement prepared for PUBLIC UTILITIES FORTNIGHTLY by former Commissioner Weston:

Costs of transit service, like costs of any other utility service, can be equitably met by the imposition of two charges: the "stand-by" charge and the "commodity" charge. The commodity charge is the transit fare, paid in respect of service actually used. The stand-by charge, which has never to date been imposed, would be in respect of transit's indispensable contribution to the economic life of the whole community, including real estate interests and middle- and high-income groups who do not personally use transit service. Without transit the lowest-income group—the service workers, laborers, students, and housekeepers — cannot perform their daily functions. Without transit, the city is strangled by auto traffic congestion to the economic detriment of all.

The fact is that transit today can no longer meet all costs of service, includ-

ing the expense of local taxes and capital costs, out of the commodity charge. The imposition of a charge in respect of transit's contribution of stand-by service is necessary. No method presently exists for measuring an adequate, equitable stand-by charge to meet transit's needs.

However, a start can be made in the right direction. If the burden of local taxes now paid by transit were shifted to other local sources of revenue—principally in effect to real estate taxes—the result would be somewhat like the off loading of a stand-by cost on the community as a whole, which benefits from having the transit stand-by service.

As I have continually stressed, the fact is that the community, and particularly municipal real estate, must assume some portion of municipal transit costs, in the nature of stand-by charges, if private enterprise transit operations are to be continued. It is feasible and logical to make a start in this direction by relocating the burden of local taxes which now press transit companies to the breaking point.

Our (District of Columbia Public Utilities Commission) Capital Transit opinion of January 20, 1954, intimates the above, which I later presented to the Real Estate Board and civic groups.

THAT tax relief for transit has already been accepted as justifiable by various legislative bodies we have already noted. This reduces the costs which transit has to pay. But it does not actually bring income to the companies, income which they may use to pay other costs. To carry the remedy to its logical conclusion transit



Public Ownership No Transit Panacea

OVER the years more and more companies have passed into municipal ownership. This change merely transfers the headaches from business management to public officials and, of course, the ever-burdened taxpayer. City officials realize that operating transit lines is a thankless job without the prospect of profit. Public ownership, we have learned, does not increase revenues or diminish costs. Rather, it tends to aggravate waste and inefficiency, opens the door to graft, and makes a perfect setup for ever-increasing union demands and featherbedding practices. Groping for a way out of the dilemma other than by public operation, more and more officials are turning to the possibilities of tax relief for privately owned transit and even outright public subsidy of private companies."

will have to be subsidized by the community it serves. This means that other elements in the community will have to submit to special taxation to raise money to help meet transit's costs. Such outright subsidy, entailing public education to its acceptance, must be based upon careful study to determine which groups should bear the special transit tax and in what proportion and amounts.

Some useful thoughts on transit stand-

by subsidy through special taxation are contained in an essay, "Transit's Place in the Solution of Urban Transportation Problems," by Warren T. Adams, transportation engineer, published in June, 1955, by the Urban Land Institute, Washington, D. C. (Technical Bulletin No. 26, "Crowded Streets — A Symposium on Public Transportation.") The fare structure must be built on a service charge assessed on a benefit basis against all resi-

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dents and commercial property owners who are within the stipulated walking distance of the authorized minimum service, Mr. Adams holds. The criterion to be used for determining the benefits from prescribed transit operations, he adds, will vary from city to city for both residents and commercial property owners. The essay suggests the broad principles on which the proposed assessments should be based for those two groups and how they may be geared to passenger fares.

Under Mr. Adams' proposal the total annual cost to be used in computing the service charge would include not only the fixed expenditures for overhead and depreciation but the necessary return on investment in vehicles and plant as well. A large part of the variable operating costs, such as operating a bus without any passengers, would be covered, as well as garage and car-house work, vehicle and track maintenance, operators' wages, fuel and power.

ALONG the same lines as the foregoing is the suggestion in the recent Brookings Institution book by Wilfred Owen, "*The Metropolitan Transportation Problem*," that to assist city transit urban areas be granted a fair share of state-collected highway user revenues either in the form of cash grants or by more adequate state construction of highways in urban areas.

The problem of urban mass transportation, which has become so acute with the development of the automobile, is not going to diminish of its own accord. Instead it will tend to become more and more serious as population grows and personal incomes rise. Transit companies will continue to struggle with the competition of

strangling traffic largely composed of private cars, unless "something is done." Various "somethings" have been suggested and in some cases have begun to be implemented. Clearly the situation calls for radical treatment, which in turn must be founded on public understanding and sympathy which only a major educational effort can instill. Sooner or later the masses demanding transportation in our cities will come to realize that one way or another the community must share in the costs.

Public ownership, it has been amply demonstrated in many cities, is no panacea. Indeed, there can be no panacea. But some of the suggestions quoted in this article, novel though they be, are worth careful consideration by all concerned.

AMONG those who have advanced the idea that the community should if necessary support transit are Ralph Budd, formerly chairman of the Chicago Transit Board, and Werner W. Schroeder, vice chairman. Said Mr. Budd:

Financing of these vital extensions of rapid transit is a community responsibility, just as is the financing of other essential services such as waterworks, sanitation, and street facilities, and parks, because providing traffic ways for moving people and goods is historically an obligation of the entire community.

A special Seattle, Washington, commission stated:

The whole community should bear the cost of capital investment and amortization, with fares high enough to pay only operating costs.

Seattle's Mayor Pomeroy is quoted:

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Some portion of any transit operation must be considered from the standpoint of value received by the entire community.

A similar conclusion is developed in the September, 1956, report of the New England Governors' Committee on Public Transportation.

The report concerns itself mainly with bus transit in average-size New England cities, although—it states—the basic recommendations are also applicable to larger metropolitan areas. The 36-page printed booklet incorporates a report made for the committee by Simpson and Curtin, a Philadelphia transportation engineering firm, on the basis of which the committee formulated its recommendations. The entire report is available from the committee's offices, 1137 Statler building, Boston 16, Massachusetts.

As others previously have done, the New England committee suggests that, since city transit benefits not only transit riders but the whole community, including other users of the streets, one important way to counteract the deterioration of the transit business and prevent further

municipalization is to give private transit companies a fairer tax break.

In hailing the New England committee's recommendations as holding forth for private transit the prospect to get a new lease on life, the *Providence Journal* editorially observed:

The committee is *not* a front organization for the mass transit industry. It includes businessmen and public officials, economists and university professors. But in many respects its program reinforces points that mass transit companies have been trying in vain to put across for some time. The report speaks with authority and clarity in support of an action program.

In a nutshell, the action program calls for local transit company relief in respect to fuel taxes, vehicle registration fees, and the gross receipts tax; greater discretion for managerial fare and service decisions; adjustment of traffic and parking regulations and better planning of new highways; renewed attack on rush-hour and similar problems; and ingenuity on the part of transit management.

The ailments of city transit need not be reiterated here. Suffice it to note that



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public transit's chief competitor is the private automobile. The New England report notes that some of the difficulties of public transit are the result of statutory requirements which were laid down when public transit had a true monopoly. That was long ago. Now transit is a highly competitive activity and "should be granted relief from certain of the arbitrary legislative enactments of the past."

THE New England report is premised on the fact that "the continued existence of privately operated transit systems is essential to our economy and that such systems should be given the fullest support and assistance, all to the end of meeting the needs of community transport and of giving proper encouragement and assistance to the efforts of private enterprise in meeting these needs." As a means of reducing operating costs of local transit companies it recommends, as already mentioned, tax reduction. As to fuel taxes, the committee points out that although transit buses operate mainly on city streets, this tax goes chiefly to finance construction and maintenance of state highways and recommends that the companies be exempted from a portion of the fuel tax prorated according to the mileage not operated over state-maintained roads and streets. This would mean considerable relief for New England transit, for in 1954 in the six New England states over 79 per cent of motor fuel tax receipts went for state highways.

Some states already have taken action to exempt transit lines from part or all of state fuel taxes. The Texas Revenue Act of 1955 gave transit relief as to fuel tax increases. The federal government also has been impressed with transit's eco-

nomic needs, for in the enactment of the recent highway program (HR 10660) transit companies as therein defined are exempted from the special fuel and weight taxes contained in the program. A committee report on HR 10660 stated:

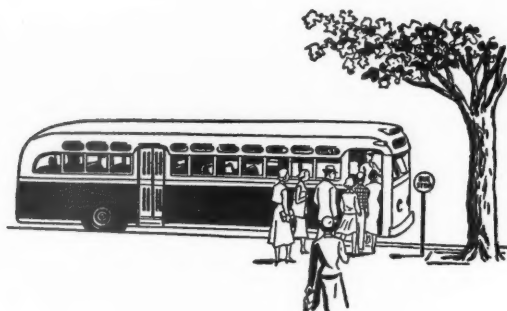
The exemption for local mass transportation is provided because many such transportation systems already are operating near or below the break-even point . . .

VEHICLE registration fees also are intended to produce revenues for state highways. In New England in 1954 nearly 77 per cent of motor vehicle receipts went for state purposes. On this point the report argues:

Such fees can be reduced because of the fact that buses render an important public service through reducing the street space requirements for an equivalent number of passengers. One bus will carry as many passengers, seated, as will 30 automobiles at average loads. Thus, the greater the bus use, the less pressure for more streets and parking spaces. Furthermore, bus companies carry schoolchildren at much less than adult fares, and so render a service that, in its absence, would fall upon the taxpayers at costs greatly in excess of those now current.

So the committee recommends that transit buses pay only a nominal registration fee sufficient merely to reimburse the state for the cost of the license.

The gross receipts tax, originally a sort of franchise tax imposed upon companies having local transit monopolies, is inapplicable to modern conditions and the committee recommends its abolition. In



Obsolete Restrictions on Transit

"THE New England report notes that some of the difficulties of public transit are the result of statutory requirements which were laid down when public transit had a true monopoly. That was long ago. Now transit is a highly competitive activity and 'should be granted relief from certain of the arbitrary legislative enactments of the past.' The New England report is premised on the fact that 'the continued existence of privately operated transit systems is essential to our economy and that such systems should be given the fullest support and assistance, all to the end of meeting the needs of community transport and of giving proper encouragement and assistance to the efforts of private enterprise in meeting these needs.' "

New England, apart from a nominal tax in Vermont, only Connecticut and Rhode Island employ the gross receipts tax on motorbuses. The engineers reason that there is no more logic to a gross receipts tax on transit buses than there would be for bakery, milk, or other similar trucks using the streets. This tax is doubly unreasonable since transit rates are rigidly controlled.

The gross receipts tax is deemed basically unjust, moreover, because it is borne mainly by low-income groups today, unlike the case when public transit carried virtually all the people.

RELATED to the foregoing proposals of tax relief for city transit on the grounds that it is to the interest of the community as a whole to avoid the headaches of public ownership and keep private companies in existence is the idea published by the Chicago Transit Board, as mentioned above. If, as a partial solution, automobile owners cannot be persuaded to increase their use of public transit, why not add \$20 a year or about 40 cents a week to the city license and use the proceeds to support public transit, Mr. Schroeder asks. The transit question will long remain a primary problem and re-

sponsibility of the community and will be better solved now than later. In support of such a special tax Mr. Schroeder adduces these arguments:

(a) Transportation is a community problem. It should be a unit in itself. The elements which make for the deterioration of public transportation income should contribute toward the maintaining of at least part of the income which they help destroy.

(b) The habitual automobile driver expects to have public transportation available on days when the battery gives out or another member of the family wants the use of the car or when the weather is too bad for automobile driving.

Mass transportation facilities are a stand-by service to every automobile user. In other utilities such as telephone, gas, and electricity, there is a stand-by charge which must be paid even though no use is actually made of the facility, but in public mass transportation there has historically been no such stand-by charge. Would it not be reasonable to assess a nominal charge of that kind on those who want the transportation available in case of need?

PPOINTING out that the Milwaukee Municipal Public Transportation Study Committee found that the city suffers a deficit of \$90 for each motor vehicle in the city and assuming that this applies to other cities, Mr. Schroeder states that it could be argued that it would not be unjust to require the motorist to make a contribution to the general transportation picture. This idea he puts forth not as a conclusion, but as something for consideration and discussion.

APART from tax relief for transit the New England report discusses four ways in which state regulatory burdens on transit may be lightened. There are: (a) to permit greater freedom of management; (b) to free transit of arbitrary requirements in regard to reduced rates for minors; (c) to reduce or eliminate "lag" in obtaining needed fare adjustments with provisions that will not permit municipalities to defer needed fare increases on inadequate and specious grounds; (d) to use operating ratio as a measure of the reasonableness of proposed fares. (The latter is already being done in all New England states.) Some of the report's comments on these four points are worth special note here.

The authors would give private transit a free hand to operate such services and at such fares as to permit it to compete with the private automobile. Regulation has forced transit companies to operate some services at below cost, as in the case of school fares. No other business is compelled to sell its product at a loss just because the customers are minors. The authors would allow transit companies to put a tariff into force experimentally on short notice, modify it when necessary, offer lower fares for short-haul riders, differential rates in thin-traffic areas, mid-day shopping fares, special express fares, and the like.

As to the lag between a proposed tariff increase and its becoming effective, the report notes that in New England this may vary from four to twelve months, where municipalities intervene. The last increase of the Connecticut Company lagged nine months after filing; that of the Springfield Street Railway in 1954, ten months. For companies operating on

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a meager margin, such long suspensions "may well prove almost disastrous." As an alternative the report outlines a more rapid procedure similar to that recommended in 1952 by the Massachusetts Special Commission Relative to Local Transit Companies, with the elimination, however, of the bond requirement, which now exists in Connecticut, New Hampshire, and Vermont.

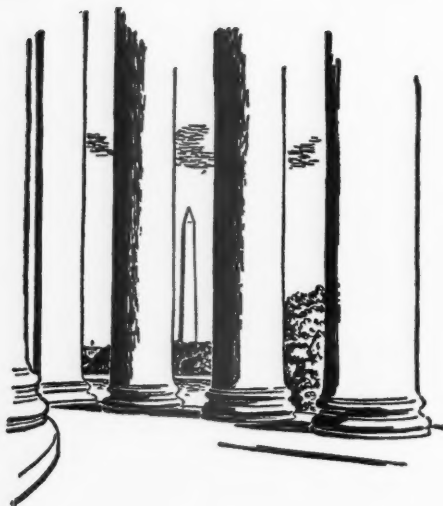
Considerable attention is given in the New England report to the arguments for the use of operating ratio rather than the return on investment standard for rate making where bus companies are concerned. The authors list five factors which distinguish such companies from other utilities and which give rise to the need to depart from historical methods in computing a proper return. These are: automobile competition, the high labor-cost factor, absence of natural growth, inelasticity of costs, and absence of labor-saving opportunities. Moreover, plant investment in a bus company is low relative to annual revenues and more volatile than in other utilities. The situation is very different from that existing when transit companies all had large permanent investments in track, overhead, and streetcars, all of which are relatively long-lived.

The report discusses at considerable length the ways in which cities may aid transit movement and thus encourage greater public use thereof.

Two other subjects discussed in the New England report deal with what local business groups and transit companies themselves may contribute to a solution of transit's ills. In summary, the

authors urge local business groups to extend maximum co-operation and encouragement to their local transit companies to aid them in extending or enhancing service to newly developed residential areas, industrial areas, and to retail stores through special shoppers' service plans or similar inducements such as are regularly offered in St. Louis, Kansas City, and Trenton. Transit companies for their part are advised to place greater emphasis on merchandising service by studying and installing where feasible: club-bus operations; special home-to-factory express services; other express services; park-ride facilities; and co-operation with merchants to encourage shoppers.

THE appendix of the New England report lists the various transit recommendations which have been made since 1953 by various committees and commissions in six different states and the actions taken as a result thereof. In Massachusetts the registration fee on transit buses has been reduced from \$1.50 to 50 cents per seat. Wisconsin in 1955 exempted transit from state motor fuel taxes and city license fees and substituted a state tax of 50 per cent of net income in excess of 8 per cent on the depreciated value of plant. Texas exempted transit from the one-cent increase in the state motor fuel tax; and it reduced the gross receipts tax by half. Toledo, Ohio, eliminated on-street parking in the central area, instituted "pay-leave" fare collection, with a 24-block neutral zone where no fares are collected, and eliminated owl service. New York state eliminated the 2 per cent gross receipts tax on the first \$500,000 of revenue.



Washington and the Utilities

TVA Shake-up

A CONTROVERSY over the directorship of the Tennessee Valley Authority seems to be shaping up. Two Senators and two mayors from the area served by the government-owned river resource agency have already criticized General Herbert D. Vogel, board chairman of the TVA, for allegedly "prejudging" future policy decisions of the board.

Besides General Vogel, the board is composed of Dr. Raymond Paty, whose term expires in 1960, and Dr. Harry Curtis, whose term expires next spring. Both were appointed under Democratic administrations. General Vogel was named board chairman by President Eisenhower in 1954. Since then the relations among the three directors have been somewhat strained over policies and programs affecting the rôle of the TVA, particularly in the field of government power.

The Tennessee valley Senators may be seeking to control the appointment of any new TVA board members when vacancies occur. Senators Hill and Sparkman (both Democrats, Alabama) and other government power proponents in the TVA area had taken a pessimistic view of TVA's

future in the event the Eisenhower administration was returned to office. It now appears a move is afoot to challenge any appointee named by Eisenhower to the TVA vacancy upon the expiration of Curtis' term.

THE old idea of moving TVA headquarters from Tennessee to Alabama was what touched off the latest outburst. TVA's General Manager Wagner announced that the agency's division of agricultural relations would move in September, 1957, to Muscle Shoals. Truman appointees, members Curtis and Paty, approved the move in the "interest of improved efficiency."

General Vogel charged that the proposed move was actually a piecemeal attempt to transfer TVA headquarters to the Muscle Shoals area. That had been proposed in 1953, but was spiked by Representative Baker (Republican, Tennessee), who attached a rider to the TVA appropriations bills preventing the use of funds for such a shift. General Vogel revealed his hopes of obtaining support from another Eisenhower appointee to the board by stating: "The move cannot

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be made before next summer, and by that time the membership of the [TVA] board will have changed."

SENATOR Hill observed that it will be the President and the Senate who will decide who will be on the TVA board. Sparkman termed Vogel's remark an "implied threat." He said he thought that "after the experience we have had with [General] Vogel we are going to scrutinize the next appointment most carefully and make certain before he is confirmed that he will function as the law requires him to do and not play politics."

Speaking from the standpoint of Tennessee, however, *The Knoxville Journal* stated editorially:

General Herbert D. Vogel, the chairman of the Tennessee Valley Authority, has placed the people of this area deeply in his debt. He has endured with remarkable patience the vilifications and abuse of the public power lobby and its shrillest spokesman, Citizens for TVA, along with such camp followers as Governor Frank G. Clement, Senator Albert Gore, and Senator Estes Kefauver. The results of the election in Tennessee, to cite a state in which the Eisenhower administration's power policy had been made a political issue, leave these organizations and their spokesmen in a state of being repudiated. . . .

Certainly if this community has not fully appreciated the patience with which the General has taken abuse in the past it can note with gratification his firm stand to head off this scheme for the gradual moving of the authority offices out of Knoxville. We believe almost everyone in this area is glad the General is on the board looking after their interests.

It is evident from this that, with the

issue of where TVA shall go or stay raised between Tennessee and Alabama, it will be difficult for even such antiadministration Democratic critics as Senators Gore and Kefauver and Governor Clement to refuse to support General Vogel in this instance.

Storage Dam for the Middle Snake?

INTERIOR Secretary Seaton has disclosed that he is considering a U. S. Reclamation Bureau report calling for construction of a high dam at Pleasant Valley on the Snake river between Idaho and Oregon. Interior Department support of a high dam project would complicate the application of the Pacific Northwest Power Company, pending before the Federal Power Commission, to build a power project with smaller dams at the Pleasant Valley and Mountain Sheep locations.

U. S. Reclamation Commissioner W. A. Dexheimer said, in a speech at Yakima, Washington, on November 26th that the bureau had found that a high dam project, which would provide flood-control benefits as well as power, would be "entirely feasible, no matter who builds it." The project proposed by Pacific Northwest Power does not include provisions for flood control. (See, also, page 1001.)

Seaton had asked the bureau for a report on the possibility of "maximum development" of that part of the Snake river. After it was supplied, aides said, Seaton asked for some further information and his decision will take another couple of weeks "at least."

It is not clear, as yet, how such a project would affect certain features of projects planned by private power companies in the Pacific Northwest. It would not interfere with the Oxbow or Brownlee

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dams for which FPC licenses have been issued to Idaho Power Company. But a third dam planned by the company at Hell's Canyon might be eliminated if the Interior Department decides to back the larger storage project and Congress approves. A high dam at Pleasant Valley would probably flood out the Hell's Canyon site. A Pleasant Valley power project planned by four Pacific Northwest utilities would also have to be reconsidered.

What Interior is studying apparently, is a giant federal storage and power project in the middle Snake, with private utilities building additional projects below and above it on the river. Such projects would include one at Mountain Sheep, now planned by the four utilities, and dams at Oxbow and Brownlee scheduled by Idaho Power Company. A high-level Interior Department conference is reported to have been held late last month, in which Assistant Secretary Fred A. Aandahl and Reclamation Commissioner Dexheimer participated.

GAO Wants AEC Nuclear Audit

ATOMIC ENERGY COMMISSION contracts with utilities covering nuclear reactors should be subject to General Accounting Office audit, if federal funds are involved. Such was the recent decision of the Comptroller General, Joseph Campbell (former AEC member), in the case involving a Yankee Atomic Electric Company contract with the AEC. Yankee Atomic Electric had requested (and the AEC had agreed) that the government audit be restricted to that use made of AEC funds. It would not apply to funds defraying construction and operating costs incurred by Yankee.

Comptroller General Campbell ruled

that the basic reason for government participation "was to secure information concerning the cost of nuclear production of energy." Campbell stated in a letter to AEC Chairman Strauss, "While it is true that the government will not bear any of the construction or operating costs, such costs are an essential element of the overall knowledge which is the main consideration moving to the government under the contract." The GAO chief decided that construction and operating cost data are "directly pertinent" to the contract within the meaning of § 166 of the Atomic Energy Act of 1954 and that the contract would be "subject to question" if such an audit were precluded.

House Plans "Partnership" Review

CLOSE scrutiny of the "administration's" partnership power program is likely to be the first order of business for the House Interior Affairs Committee at the next session of Congress. The committee's chairman, Representative Engle (Democrat, California), made it clear last month that he considers the election results in the Pacific Northwest a "definite repudiation of the natural resources record of the Republican administration." Engle's interpretation is not shared by Secretary of the Interior Fred Seaton, nor by many disinterested observers who have noted polls showing that other issues weighed more heavily.

Nevertheless, the election results are expected to furnish a convenient means of justifying further attacks by the congressional government power bloc on the administration's policies. Engle complained that administration officials have never clearly defined what they mean by "partnership."

Telephone and Telegraph



Ohio Antistrike Law Killed

THE Ohio legislature turned thumbs down on an emergency proposal of Governor Frank J. Lausche to end a critical telephone blackout in the southeastern area of the state. Governor Lausche had called a special session of the legislature to deal with labor difficulties which have shut off telephone service in many communities since October 15th.

A committee report, later adopted by the Ohio house, agreed with the governor that there exists in Scioto county and the cities of Portsmouth and New Boston "an emergency affecting the health, welfare, and safety of the citizens of these areas as a result of the complete stoppage of telephone service." But it disagreed that the administration-sponsored bill calling for seizure of the company was the proper way to deal with the strike. The bill was rejected on grounds that it was unconstitutional, unworkable, and would tend to weaken collective bargaining "to the detriment of labor relations in public utilities . . ."

Despite the setback, Governor Lausche, who will become Ohio's junior Senator in the United States Senate next month, thought that some good would ultimately come from the special session. He expressed the hope that Ohio Consolidated

Telephone Company will reopen its plants and again promised "the fullest protection of law and order" to communities where frequent outbreaks of mob violence have occurred.

THE legislative committee blamed local police and municipal and county officials for the breakdown of law enforcement, and said the situation was aggravated by the "adamant attitude" of the telephone company and its striking employees. The company closed its exchanges in Scioto county and in two municipalities October 15th after mobs attacked telephone buildings and lines and threatened supervisory personnel who had taken over facilities to provide limited service. Company officials have said they will not resume operations until they are assured of adequate police protection.

In a further rebuke to Governor Lausche, the legislators, including members of his own party, accepted the house committee's declaration that the governor himself has the authority under existing laws to deal with the problem. "It is the opinion of the committee," the report stated, "that procedures exist under present laws, including emergency powers of the governor under the Constitution and statutes, which are adequate for main-

PUBLIC UTILITIES FORTNIGHTLY

taining law and order in the areas concerned and that if resort is had to those remedies and law enforcement is restored, telephone services can be resumed."

Governor Lausche hopes that some solution will eventually be found to the problem of strikes which tie up vital services rendered by public utilities. "Inevitably," he declared, "prudent and properly intentioned legislators will continue to give study to the problem. Out of it, in my opinion," he said, "there will come from some future legislature an act, the provisions of which will make impossible the recurrence of a protracted shutdown of services rendered by a public utility company."

Bell System Pension Plan

THE U. S. Supreme Court has in effect approved the Bell system's offset method of integrating private pension plans with Social Security benefits. The method permits an employer to reduce pension payments to retired workers by an amount equal to one-half the amount workers receive through Social Security.

The offset method was challenged by seven retired employees of Illinois Bell Telephone Company, American Telephone and Telegraph Company, and Western Electric Company. All seven were covered by identical pension plans worked out by the Bell system. When Congress raised Social Security old-age benefits in 1950, their pensions were reduced. The employees then brought suit to require the Bell system to reimburse them for cuts in their pensions that were made to offset higher Social Security payments. A U. S. court of appeals decision ruled that the offsets were legal and proper and the U. S. Supreme Court has now refused to review the ruling.

The employees complained that under

the offset arrangement, higher old-age payments authorized by Congress benefited the Bell system rather than its retired employees, arguing that Bell "used the cost-of-living allowances by Congress in 1950 to decrease its own obligation to its pension plan." The Bell system contended that the offset system is designed to avoid duplication of costs and that the offset represents the share paid by it toward an employee's retirement through Social Security taxes. Under Social Security, both employer and employee contribute to the worker's retirement fund.

Bell said the offset system is widely used by other corporations, although the seven employees claimed that many companies have adopted pension formulas without the offset provision. Since the action was begun, Bell has changed its plan so that a retired employee's private pension payments cannot be reduced after his retirement date, regardless of any changes made in Social Security payments.

New York Rate Case

THE New York Telephone Company's new request for rate increases totaling \$55,400,000 annually places before the New York Public Service Commission questions of far-reaching importance to the utility industry. The company's request follows a decision last February by the New York court of appeals that the commission was in error in refusing to accept evidence on the replacement cost of telephone company properties.

It will be recalled that the company, in 1953, asked for a rate boost totaling \$68,850,000. After extended hearings, the request was turned down in August, 1954, with the commission insisting that the property be valued for rate-making purposes at its original cost. Following the court of appeals decision reversing the

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commission, a bill was introduced in the 1956 legislature that would have required the commission to use original cost as the basis for rate making. Although the bill was passed by the assembly, it was killed in a senate committee. Governor Harriman has now announced that he will reintroduce the bill in the 1957 legislature.

Governor Harriman's intention to seek legislation confining the commission to an original cost rate base lends significance to what would otherwise be another routine rate case. As the *New York Journal of Commerce* pointed out editorially, "Price advances of recent years make this rate base determination of extreme importance to the utilities; for a full acceptance of the reproduction cost principle would mean that companies would have to be given substantial rate increases. These would be needed to give them a fair return on the increase in the replacement cost of equipment they use that our rising price level has brought about."

THE *Journal of Commerce* was highly critical of Governor Harriman's program, pointing out the time-tested precedent of an independent public service commission. Said the *Journal* editorial: "This institution was originally established because it was found that legislatures were too inflexible to provide proper regulation of businesses directly affecting the public welfare. The legislature meets too infrequently and has too much else to consider to be able to provide proper day-to-day guidance of public utilities. Hence these functions were delegated to a commission of experts who are able to devote their time to nothing but assuring proper and fair utility regulation." Moreover, the *Journal* stated, the governor's plan would strictly bind the

commission to an outmoded procedure.

Governor Harriman chided the New York Telephone Company for delaying its latest rate increase request until after the election. A telephone company spokesman, in explaining the delay, said that a resurvey had to be made to re-evaluate the company's properties. At the same time, he pointed out, the company was occupied with the preparation of its "stop-gap" requests. "We have added a million telephones since we filed the original case and the business is one-sixth larger," the spokesman said. "Naturally the service rates we then applied for now would produce substantially more revenue . . ."

Keith S. McHugh, company president, said that the increase would average about 6½ per cent of revenues. This, he said, will bring the company's total rate increases since before World War II to less than 28 per cent—"an amount far below the rise of 95 per cent in the cost of living generally."

McHUGH said that to insist upon an original cost basis was "like saying to a home owner that a house he bought for \$7,500 in 1940 is worth not a penny more in today's market." The company, he said, will spend \$275,000,000 this year on its current construction program and \$320,000,000 next year.

"Contrary to some popular belief," McHugh declared, "increases in the volume of our business do not mean that the New York Telephone Company is doing all right. Actually, increases in operating expenses and taxes have risen at a faster rate than revenues. The facts of the matter are that in nine of the last fifteen years—including 1954 and 1955—the company has failed to earn enough to pay its regular dividend."



Financial News and Comment

By OWEN ELY

Accelerated Depreciation and Share Earnings

LAST year roughly 40 per cent of the electric utilities, and probably a smaller proportion of other utilities, decided to adopt one of the special new methods of calculating depreciation accruals in their tax returns, as permitted by the Revenue Act of 1954. Most of the companies continue to use straight-line depreciation in their published earnings reports, but the tax savings resulting from the larger initial depreciation charges on new plant (usually called deferred taxes, since in theory the company may have to pay them at some future date) do appear in the published earnings reports, increasing the share earnings.

The problem has therefore arisen as to whether earnings should be "normalized" by inserting an offsetting item in the income account (preferably next to income taxes) of "deferred taxes resulting from accelerated depreciation." A number of companies appear to be doing this, but a few companies are including the savings in current share earnings, and also in their estimates or projections of future earnings.

This confusion is somewhat similar to that which occurred with respect to accelerated amortization when resulting tax saving from this source began several

years ago. Originally a few utility companies carried down the resulting tax savings to share earnings, but later the policy became generally adopted of inserting an item for "deferred taxes."

THE utility companies had until September 15th this year to decide whether they wished to adopt accelerated depreciation on new property, on a retro-active basis to January 1, 1955. Accordingly, additional companies may recently have adopted this method of tax saving in addition to the 40 or 50 electric utilities which adopted it last year.

Meanwhile, many utility analysts and investors who have not had the time or patience to ferret out the figures may remain in doubt as to whether (1) the com-

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panies in which they are specially interested have adopted accelerated depreciation, and (2) whether the resulting tax savings are included in the "deferred taxes" item or whether they have lodged in share earnings. Some utility companies are specific in this respect, indicating clearly in the deferred tax item that both accelerated amortization and depreciation are taken care of therein. In other cases it is necessary to study the footnotes to the income account or balance sheet, which may not always be reproduced in the financial services. Even if the footnote refers specifically to amortization under necessity certificates, this may leave the analyst in doubt as to whether the accelerated depreciation has been adopted without being normalized.

Utility companies should make clear to the services and to their stockholders just what they are doing; if the tax savings from accelerated depreciation are in share earnings this should be indicated. Either the item "deferred income taxes" should include a phrase "but not those resulting from accelerated depreciation" or, preferably, the item of share earnings should carry a phrase "including tax savings resulting from accelerated depreciation."

FROM a practical standpoint the utility analyst is greatly handicapped by the present situation in making investment comparisons (1) between different utilities, with respect to the yardsticks "price-earnings ratio" and "percentage pay-out"; and (2) with respect to the current showing of an individual utility compared with its past record. Last year the savings resulting from accelerated depreciation, reduced to a per share basis, were fairly significant in relation to share earnings. This year the ratio will be higher, and it will continue to increase for four or five years. (In one instance it is estimated that the amount per share will rise from nine

cents to 80 cents.) Thus, in a few years the item might be quite important in relation to share earnings.

The analyst merely wants to have the information readily accessible, so that he can adjust share earnings if necessary to a comparable basis for different utilities. The utility company may be fully justified by regulatory decisions, or by the advice of its official accountants, in handling the matter of tax savings either one way or the other. A state commission has ordered one utility company to include the savings in its reported earnings, instead of setting up a deferred tax item and carrying them through to a balance sheet reserve.

There appears to be some difference of opinion in accounting circles as to the proper method of handling these savings. For example, in the department "What Others Think" in the *FORTNIGHTLY* of November 22nd, there was a summary of the hearings before the New York Public Service Commission last June, indicating a significant difference between the tax savings resulting from fast depreciation and those derived from five-year amortization of defense plants. One utility executive pointed out that due to the effects of utility growth, tax reductions resulting from the use of the SYD method may continue to rise for several decades, and that thus the annual tax reduction will be substantial for many years to come.

FROM the regulatory angle there are several questions, not yet fully resolved. What decisions will the remaining state commissions, including the important New York commission, make as to accounting procedure? If tax savings are permitted to appear as deferred taxes "above the line" will this govern in future rate cases, or will some commissions still want to "give consumers the benefit" of the saving? Will the utility be allowed

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to retain the property built from these tax savings in the rate base? Will the "restricted surplus" or "reserve for deferred taxes" be included in the common stock equity for the purpose of calculating capital ratios? What will the attitude of the rating services (such as Moody) be in this connection? Is there any possibility that the reserve might sometimes be construed as a debt, as is the liability for accrued taxes in current liabilities?

For the utility analyst, the new tax savings resulting from accelerated amortization and fast depreciation merely compound an old problem. The Treasury Department has for many years allowed liberal write-offs for lost property, etc., though these must be taken in the year they occur, rather than being amortized, as is usually done in the reports to commissions and stockholders. Also, the utilities have been permitted to use methods of depreciation which resulted in somewhat more rapid depreciation accruals than the straight-line method. Accordingly, there already have been substantial historical differences in depreciation accrued for tax purposes as compared

with published depreciation figures. This was particularly true in the 1920's and 1930's when efforts were being made by holding companies to increase published earnings. The extent of the differences are revealed in the reports of the Institutional Utility Service, and currently in the annual statistical reports of the utility companies (confidential until recent years). Thus there are now four possible sets of tax savings: (1) historical differences in methods of accruing depreciation; (2) special charge offs of abandoned property, etc.; (3) five-year accelerated amortization on certain new plant units; and (4) accelerated depreciation on other new plant as discussed above.

THE analyst can, of course, attempt to determine the actual tax rate paid by a utility company as compared with the theoretical 52 per cent corporate tax rate. He can attempt to reconstruct the amount of taxable income by adding income taxes (and deferred taxes) to net income, deducting therefrom the interest credit on construction (not recognized by the



NOVEMBER UTILITY FINANCING PRINCIPAL PUBLIC OFFERINGS OF ELECTRIC AND GAS UTILITY SECURITIES

Date	Amount	Description	Price To Public	Under- writing Spread	Offer- ing Yield	Moody Aver. For Securities Of Similar Quality	Moody Rating	Success Of Offering, Etc.
11/15	\$50.0	Public Serv. E. & G. 1st 4½s 1986	101.26	.75C	4.30%	3.73%	Aa	c
11/21	10.0	Texas P. & L. 1st 4½s 1986	101.26	.87C	4.30	3.78	Aa	a
<i>Preferred Stocks</i>								
11/16	20.0	Pacific Lighting Conv. \$4.75*	99.00	2.50N	4.80	4.43	—	a
11/21	10.0	Arizona P. S. Conv. \$2.40**	50.00	1.25N	4.80	4.46	—	a
11/21	2.5	Blackstone Valley G. & E. 5.60%	101.82	1.75	5.50	4.73	—	a
<i>Common Stock—Offered by Subscription</i>								
							<i>Earns.- Price Ratio</i>	
11/1	.6	Mobile Gas Service	21.00	—	4.76	—	5.85%	+
11/1	.3	Home Light & Power	40.00	—	5.00	—	9.80	+

*Convertible into 2.6 shares common stock for about ten years. **Convertible at 23 for about ten years. +Not underwritten. Success of offering not indicated. a—It is reported the issue was well received. c—It is reported the issue sold somewhat slowly. C—Competitive. N—Negotiated.

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Treasury Department) and crediting back bookkeeping deductions such as amortization of plant acquisition adjustments, amortization of bond discount, etc. The income tax actually paid can then be related to this figure. It is impossible to make all these adjustments for utilities as a whole, but income tax payments in the calendar year 1955 for all class A and B privately owned utilities totaled \$885,000,000 (after eliminating \$94,000,000 provision for deferred taxes). Net income before federal income taxes was \$2,226,000,000, and assuming that the interest credit on construction approximated \$70,000,000 (the 1954 figure) the tax ratio was about 41 per cent. Obviously, this would be 11 per cent below the 52 per cent corporate tax rate, though it may include wider differences for some companies and smaller for others.

November Financing Light

APPARENTLY as a belated effect of the tight money market and rising interest rates, November financing (see accompanying table, page 994) was very light. Electric utility new-money offerings amounted to only about \$75,000,000 and gas to \$123,000,000, including \$103,000,000 placed privately. Common stock financing was negligible, consisting of two very small issues. The Irving Trust Company chart on page 996 (in which we have inserted November figures) indicates that cumulative new-money financing for electric utilities through November was only slightly above last year; as previously mentioned in this department, utilities are now generating more cash internally.

In the table of November financing a new column has been added to show the spread between the yield on each new offering and the Moody average for similar outstanding issues around the approximate date of the offering.

Electric Utility Earnings Gains Tapering Off

ELECTRIC utility earnings continue to make a good showing, although increases in net income over last year are tapering off somewhat. Monthly gains in revenues, net income, and dividends over 1955 have been as follows:

	Revenues	Net Income	Common Dividends
January	11.9%	13.4%	D4.1%
February	10.8	7.9	20.3
March	9.9	11.6	9.4
April	9.0	10.1	8.2
May	8.7	11.3	8.0
June	9.9	11.1	8.4
July	8.9	8.4	11.4
August	6.8	4.3	8.3
September ..	6.5	8.3	—

This year's substantial earlier gains in revenues and net income reflected the comparatively high level of business activity compared with last year. During the summer months, and particularly in July and August, the impact of the steel strike is evident. With business activity rising to near record levels in the last quarter of the year, it seems probable that good percentage gains will be shown although year-end figures last year were also at a high level. Increases in electric output in recent weeks have not made an especially good showing—the gain in the week of November 17th was 4 per cent and in the following week 7 per cent.

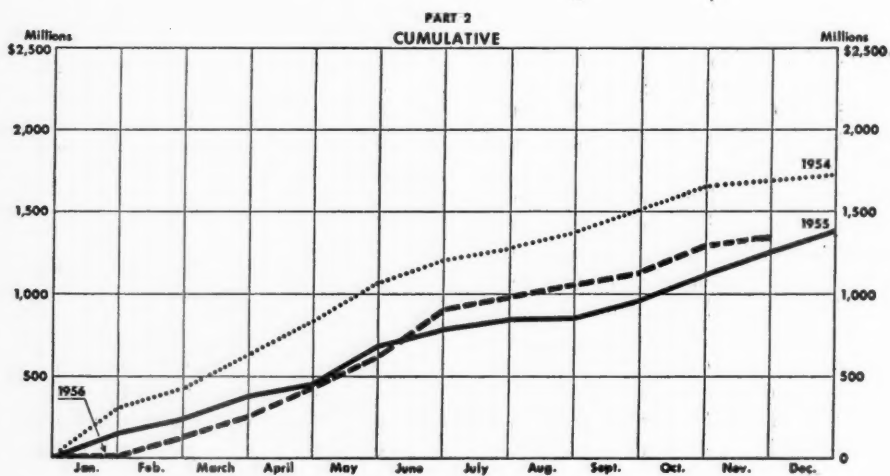
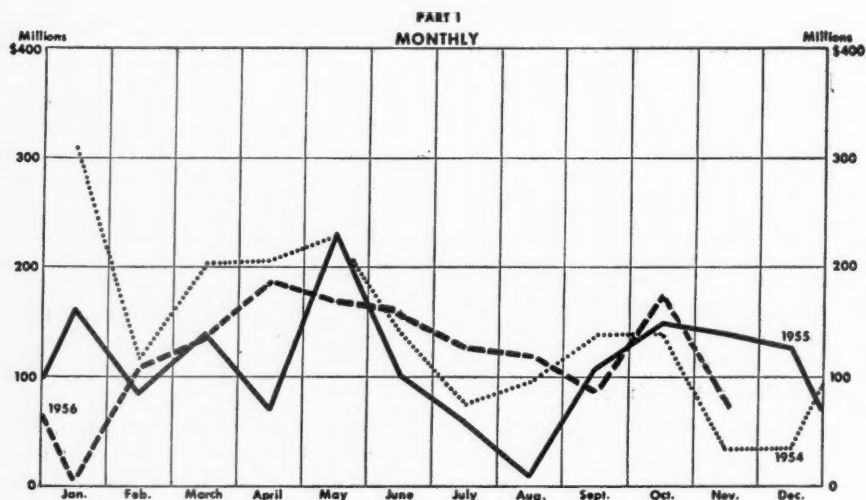
Estimated Costs at New Memphis Steam-generating Plant

MEMPHIS, TENNESSEE, is planning to issue about \$154,000,000 tax-exempt electric revenue bonds, said to be the largest single offering of such bonds ever made by a municipality.

At present, Memphis has to pay about four mills per kilowatt-hour for power purchased from TVA but due to rising

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PROGRESS OF NEW MONEY FINANCING BY UTILITY COMPANIES RENDERING PRINCIPALLY ELECTRIC SERVICE*



* Covers companies included in the calendar with assets over \$35,000,000.

Source, Irving Trust Company

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costs the price will increase to an estimated 4.4 mills by 1962. The cost of power from the new plant (delivered to the substation) will approximate the latter

amount, it is estimated, though this is based on rather optimistic assumptions regarding the cost of financing. The plant will have a name-plate rating of 750,000



UTILITY ANALYSES PUBLISHED RECENTLY*

<i>Company Analyses</i>	<i>Firm</i>	<i>No. Pages</i>	<i>Issued</i>
Alabama Gas	Georgeson & Co.	3	Aug.
American Tel. & Tel.	Laird, Bissell & Meeds	3	July
Carolina P. & L.	Jas. H. Oliphant & Co.	5	June
Central & South West	Josephthal & Co.	2	Nov.
Chattanooga Gas	A. G. Becker & Co.	4	July
Citizens Utilities	G. A. Saxton & Co., Inc.	4	May
Delaware Power & Light	Argus Research Corporation	2	June
Detroit Edison Conv. Deb.	Asiel & Co.	4	Oct.
Gatineau Power	James Richardson & Sons	5	Oct.
General Pub. Utilities	Argus Research Corporation	6	Sept.
General Telephone	Argus Research Corporation	2	Oct.
Gulf States Utilities	Argus Research Corporation	2	Sept.
International Tel. & Tel.	Talmage & Co.	1	Oct.
International Tel. & Tel.	Van Alstyne, Noel & Co.	3	Sept.
International Tel. & Tel.	G. H. Walker & Co.	4	Aug.
Montana Power	Smith, Barney & Co.	20	June
Mountain Fuel Supply	The First Boston Corporation	10	Sept.
National Fuel Gas	Argus Research Corporation	—	Aug.
National Fuel Gas	Thomson & McKinnon	1	Aug.
New England Elec. System	Reynolds & Co.	1	July
N. Y. State Electric & Gas	Josephthal & Co.	2	Sept.
Northern Illinois Gas	Glore, Forgan & Co.	23	—
Nor. Indiana Pub. Service	Argus Research Corporation	—	Aug.
North Penn Gas	Reynolds & Co.	1	July
Panhandle Eastern Pipe Line	Walston & Co., Inc.	1	Aug.
Peninsular Telephone	Thomson & McKinnon	1	July
Philadelphia Electric	Argus Research Corporation	2	Aug.
Pioneer Natural Gas	W. E. Hutton & Co.	2	Oct.
Public Service Elec. & Gas	Talmage & Co.	1	Nov.
So. Carolina Elec. & Gas	Argus Research Corporation	2	Aug.
Southern Company	Josephthal & Co.	2	July
Southern Union Gas	A. C. Allyn & Co.	12	—
Southeastern Pub. Service	Shields & Company	8	Aug.
Tampa Electric	Argus Research Corporation	2	Aug.
Union Electric	Argus Research Corporation	2	Aug.
Wash. Water Power	Argus Research Corporation	2	Sept.
West Penn Electric	Argus Research Corporation	4	Oct.
Western Union Telegraph	Bache & Co.	1	July
Wisconsin Electric Power	Josephthal & Co.	2	Oct.
<i>General Topics</i>			
Natural Gas Utilities	E. F. Hutton & Company	5	Sept.
Characteristics of Electric Power Industry ..	David L. Babson Distributing Corporation	4	July
Income Opportunities in Electric Utility			
Common Stocks	Goodbody & Co.	10	Sept.
Public Utility Common Stocks	R. W. Pressprich & Co.	7	June
<i>Regular Bulletins and Tabulations</i>			
Monthly Review of Utility Developments	Josephthal & Co.	4	Aug.
Public Utilities Bulletin	Eastman, Dillon, Union Securities	10	Oct.
Public Utility & Industrial Preferred Stocks ..	White, Weld & Co.	32	July
Dividend Meeting Comments	Merrill Lynch, Pierce, Fenner & Beane ..	2	Nov.
Electric Utility Companies in Regional			
Groupings	Carl M. Loeb, Rhoades & Co.	15	July

* Similar lists appeared in the March 15th and July 19th issues; also in previous years.

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kilowatts and a net capability of 813,000 kilowatts. The first unit of 250,000 kilowatts should be ready late in 1958.

Cost of the new plant (based on the amount of bonds being issued) will be about \$190 per kilowatt based on capability, or \$205 based on name-plate capacity. These figures seem somewhat on the high side as compared with the cost of private utility plants, but the total indebtedness includes the cost of some transmission lines and changes in substations. The cost of financing was figured on possible interest rates of 3 per cent, 3½ per cent, and 3½ per cent. Under present adverse market conditions it appears likely that the interest cost will run higher than the maximum estimate of 3½ per cent.

THE publicity release issued in connection with the project states that the

4.4-mill estimated cost of power will be "without subsidy in the form of direct or indirect taxation." It is difficult to understand this statement, when it is so well-known that private utilities have to pay out nearly 25 per cent of their revenues in taxes while municipal plants pay only a moderate amount, including sometimes an item "in lieu of taxes."

Even with this advantage, the estimated cost of power at the Memphis plant of 4.4 mills will probably not be as cheap as the estimated cost of about four mills at the big new steam plant projected by American Gas & Electric to serve aluminum plants to be located in its area. Memphis' cost of 4.4 mills in 1962 refers only to the cost of power delivered to substations; actually the revenues per kilowatt-hour to be sold in 1962 are estimated at .986 cent.

RECENT FINANCIAL DATA ON GAS UTILITY STOCKS

Rev. (Mill.)			11/28/56 Price About	Divi- dend Rate	Approx. Yield	Recent Share Earnings	% In- crease	Aver. Incr. Sh. Earnings 1951-55	Price- Earnings Ratio	Div. Pay- out	Approx. Common Stock Equity
Pipelines											
\$ 4	O	Ala.-Tenn. Nat. Gas	20	\$1.20	6.0%	\$1.45Se	13%	17	13.8	83%	37%
15	O	Commonwealth N. G. ...	29	1.40	4.8	2.72Se	7	X	10.7	52	37
16	O	E. Tenn. Nat. Gas	9½	.60	6.3	.82Se	46	X	11.6	73	18
48	S	Miss. River Fuel	35	1.60	4.6	2.17Se	16	6	16.1	74	52
69	S	Southern Nat. Gas	37	2.00	5.4	2.70Se	25	3	13.7	74	33
200	O	Tenn. Gas Trans.	28	1.40	5.0	1.91Se	21	17	14.7	73	22
163	O	Texas East. Trans.	25	1.40	5.6	2.12Se	12	5	11.8	66	23
71	O	Texas Gas Trans.	23	1.00	4.8	2.21Se	31	D	10.4	45	27
75	O	Transcont. Gas P. L. ...	17½	1.00	5.7	1.28Se	18	17	13.7	78	19
Averages					5.4%			12.9	69%		
Integrated Companies											
127	S	American Nat. Gas	65	\$2.60	4.0%	\$4.66Se	66%	8	14.0	56%	35%
50	A	Arkansas-Louis. Gas ...	21	1.20J	5.7	1.45Se	NC	10	14.5	83	53
44	O	Colo. Interstate Gas	68	1.25	1.8	5.28Se	NC	45	12.9	24	35
304	S	Columbia Gas System ...	17	.90	5.3	1.52Se	38	3	11.2	59	44
8	O	Commonwealth Gas	6	(a)	4.0(a)	.26De	D51	D	—	—	72
10	A	Consol. Gas Util.	15	.90	6.0	1.83Jy	87	D	8.2	49	53
240	S	Consol. Nat. Gas	41	1.70	4.1	3.26Se	21	O	12.6	52	70
178	S	El Paso Nat. Gas	55	2.60	4.7	4.20Se	61	O	13.1	62	22
40	S	Equitable Gas	27	1.60	6.0	2.31Se	20	4	11.6	69	32
15	O	Kansas-Nebr. Nat. Gas ..	35	1.60	4.6	2.63Se	30	3	13.3	61	32
88	S	Lone Star Gas	34	1.80	5.3	2.35Se	11	5	14.5	77	39
23	S	Montana-Dakota Util. ...	23	1.00	4.3	1.51Se	11	25	15.2	66	30
21	O	Mountain Fuel Supply ..	25	1.20	4.8	1.65Se	9	8	15.2	73	59
72	S	National Fuel Gas	19	1.10	5.8	1.66Se	6	8	11.4	66	58
108	S	Northern Nat. Gas	49	2.20	4.5	3.50Se	11	26	14.0	63	34
43	S	Oklahoma Nat. Gas	27	1.40	5.2	2.14Au	19	6	12.6	65	29

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99	S	Panhandle E. P. L.	91	3.00	3.3	5.01De	18	16	18.2	60	32
11	O	Pennsylvania Gas	24	1.00	4.2	1.63De	D10	D	14.7	61	68
159	S	Peoples G. L. & Coke ...	154	8.00	5.2	12.86Se	18	6	12.0	62	40
31	O	Southern Union Gas	23	1.12	4.9	1.69De	28	15	13.6	66	34
215	S	United Gas Corp.	31	1.50	4.8	2.21Se	5	7	14.0	68	41
Averages				4.7%			13.3			62%	

Retail Distributors

23	A	Alabama Gas	36	\$1.60	4.4%	\$2.45Je	29%	31	14.7	65%	44%
43	O	Atlanta Gas Light	29	1.60	5.5	3.14Je	43	2	9.2	51	38
5	O	Berkshire Gas	15	.80	5.3	1.34Au	111	46	11.2	60	37
4	O	Bridgeport Gas	29	1.50	5.2	2.57Se	22	48**	11.3	58	44
4	O	Brockton-Taunton Gas ..	16	.90	5.6	.85De	30	42	18.8	106	36
55	S	Brooklyn Union Gas	34	2.00	5.9	2.96Se	17	5	11.5	68	47
1	O	Cascade Nat. Gas	10½	—	—	Def.De	—	—	—	—	41
33	O	Central El. & Gas	16	.90	5.6	1.67Se	28	9	9.6	54	17
11	O	Central Indiana Gas	13	.80(b)	6.2	1.08Se	13	D	12.0	74	64
5	O	Chattanooga Gas	6	.30	5.0	.47Au	38	14	12.7	64	45
61	O	Gas Service	23	1.36	5.9	2.50Je	37	O	9.2	54	38
6	O	Hartford Gas	39	2.00	5.1	2.50Ma	15	D	15.6	80	52
2	O	Haverhill Gas	19	1.20	6.3	1.82Se	50	14	10.4	66	55
31	O	Houston Nat. Gas	35	1.50	4.3	2.26Jy	24	6	15.5	66	22
16	O	Indiana G. & Water	21	1.00(k)	4.8	1.62Se	17	9	13.0	62	47
6	A	Kings Co. Lighting	16	.90	5.6	1.22Se	10	7	13.1	74	28
40	S	Laclede Gas	16	.80	5.0	1.27Je	32	2	12.6	63	36
4	O	Michigan Gas Utils.	20	1.00	5.0	1.31De	5	14	15.3	76	43
4	O	MidSouth Gas	13	.15	1.2	.72De	71	D	18.1	21	34
37	O	Minneapolis Gas	25	1.30	5.2	2.27Se	43	10	11.0	57	38
14	O	Miss. Valley Gas	21	1.12(d)	5.3	1.92Se	14	—	10.9	58	28
5	O	Mobile Gas Service	23	1.00	4.3	1.23Se	D20	D	18.7	81	33
7	O	New Haven Gas	31	1.60	5.2	2.39De	7	17	13.0	67	63
10	O	New Jersey Nat. Gas	24	1.20(i)	5.0	2.11Ma	40	—	11.4	57	31
70	O	No. Illinois Gas	18	.80	4.4	1.47Se	30	—	12.4	54	49
8	O	North Penn Gas	13	1.00	7.7	.83De	D33	1	15.7	120	57
183	S	Pacific Lighting	36	2.00	5.6	2.90Se	7	33	12.4	69	44
15	O	Pioneer Nat. Gas	24	1.32	5.5	1.89Je	NC	19	12.7	72	53
13	O	Portland Gas & Coke	30	1.00	3.3	2.10Se	D6	9	14.3	48	40
2	O	Portland Gas Light	11	.75	6.8	1.22De	13	—	9.0	61	25
8	A	Providence Gas	9½	.56	5.9	.59De	16	16	16.1	95	64
3	A	Rio Grande Valley Gas ..	3	.15	5.0	.26Je	—	9	11.5	58	63
3	O	So. Atlantic Gas	13	.80	6.1	.89De	12	D	14.6	90	35
9	O	South Jersey Gas	25	1.40	5.6	2.10Au	34	23	11.9	67	52
24	S	United Gas Impr.	37	2.00	5.4	2.41Se	16	D	15.4	83	64
33	S	Wash. Gas Light	38	2.00	5.3	3.48Se	31	4	10.9	57	42
8	O	Wash. Nat. Gas	16	.40	2.5	.34Se	D33	—	—	117	67
6	O	Western Ky. Gas	14	.60	4.3	1.24Ma	NC	29	11.3	48	35
Averages				5.1%			12.6			68%	



RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER STOCKS

Rev. (Mill.)			11/28/56 Price About	Divi- dend Rate	Approx. Yield	Recent Share Earnings	% In- crease	Aver. Incr. Sh. Earnings 1951-55	Price- Earnings Ratio	Div. Pay- out	Approx. Common Stock Equity
Communications Companies											
Bell System											
\$5,297	S	Amer. T. & T. (Cons.) .	168	\$9.00	5.4	\$13.37Au*	5%	3	12.6	67%	64%
245	A	Bell Tel. of Canada . . .	47	2.00	4.3	2.43De*	—	3	19.3	82	63
40	O	Cin. & Sub. Bell Tel. . .	86	4.50	5.2	5.45De	6	5	15.8	83	100
187	A	Mountain Sts. T. & T. . .	122	6.60	5.4	8.71Au	2	10	14.0	76	78
285	A	New England T. & T. . .	134	8.00	6.0	9.16Se	14	6	14.6	87	60
715	S	Pacific T. & T.	125	7.00	5.6	9.62Se	NC	5	13.0	73	58
89	O	So. New Eng. Tel.	39	2.00	5.1	2.06Je	NC	1	18.9	97	64
Averages					5.3%			15.5		81%	

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Independents											
4	O	Anglo-Canadian Tel.	29	\$.60	2.1%	\$1.76Se	NC	19	16.5	34%	48%
33	O	British Col. Tel.	46	2.00	4.3	3.32Se	6%	22	13.9	60	28
2	O	Calif. Inter. Tel.	11	.70	6.4	.87Se	D17	—	12.6	80	30
13	O	Calif. Water & Tel.	17	1.00	5.9	1.46De	20	11	11.6	68	42
14	O	Central Telephone	22	1.00	4.5	2.15Se	13	14	10.2	47	25
3	O	Commonwealth Tel.	14	.80	5.7	1.31De	27	26c	10.7	61	32
3	O	Florida Telephone	19	.80	4.2	.88De	10	D	21.6	91	40
210	S	General Telephone	39	1.80	4.6	2.63De	27	31	14.8	68	34
15	O	Hawaiian Telephone ...	18	1.00	5.6	1.43Se*	10	19	12.6	70	47
5	O	Inter-Mountain Tel.	13	.80	6.2	.94Je	—	10	13.4	85	55
19	S	Peninsular Tel.	38	1.80	4.7	2.05Se	D10	5	18.5	88	46
19	O	Rochester Tel.	19	1.00	5.2	1.64Se	—	4	11.6	61	34
3	O	Southeastern Tel.	16	.90	5.6	1.36Se	43	13	11.8	66	42
8	O	Southwestern St. Tel. ..	19	1.12	5.9	1.48Je	36	1	12.8	76	42
28	O	United Utilities	20	1.20	6.0	1.43Se	D13	8	14.0	84	31
12	O	West Coast Tel.	17	1.00	5.9	1.24Se	2	25	13.7	81	43
242	S	Western Union Tel.	18	1.00	5.6	2.10De	39	19	8.6	48	85
Averages					5.2%				13.5	70%	

Transit Companies											
22	O	Baltimore Transit	11	\$1.60	14.5%	\$1.27De	120	X	8.7	126%	40%
13	O	Cincinnati Transit	5	.30	6.0	.34De	16	—	14.7	88	43
9	O	Dallas Transit	6	.35	5.8	.57De	D48	D	10.5	61	51
31	S	Fifth Ave. Coach Lines .	27	2.00	7.4	2.85De	D3	O	9.5	70	100
225	S	Greyhound Corp.	15	1.00	6.7	1.15Se	D11	D	13.0	87	52
21	O	Los Angeles Transit	16	1.40	8.8	.94De	D5	5	17.0	149	89
27	S	Nat. City Lines	21	2.00	9.5	2.74De	D1	11	7.7	73	93
13	O	Niagara Frontier Trans.	8	.15	1.9	1.47De	—	14	5.4	10	78
70	O	Phila. Transit	9	.30	3.3	1.27De	390	D	7.1	24	42
6	O	Rochester Transit	54	.40	7.3	.43De	D2	D	12.8	93	40
23	O	St. Louis P. S.	12	1.40	11.7	.68De	D15	28	17.6	206	91
16	S	Twin City R. T.	17	1.80	10.6	Def.De	—	D	—	—	41
22	O	United Transit	5	.60	12.0	1.03De	94	36	4.9	58	48
Averages					8.1%				10.8	87%	

Water Companies

Holding Companies

34	S	American Water Wks. ..	9	\$.50	5.6%	\$1.04Se	10%	6	8.7	48%	16%
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Operating Companies

4	O	Bridgeport Hydraulic ..	31	\$1.60	5.2%	\$2.04De	12%	4	15.7	78%	57%
11	O	Calif. Water Service	39	2.20	5.6	2.80O	5	O	14.0	79	29
3	O	Elizabethtown Water ...	38	1.00	2.6	3.01Ap	NC	36	12.6	33	56
9	S	Hackensack Water	42	2.00	4.8	3.60De	10	11	11.7	56	37
8	O	Indianapolis Water A ..	19	.37	2.0	1.59De	27	27	11.7	23	33
5	O	Jamaica Water	33	2.00	6.1	2.94Se	—	10	11.2	68	25
4	O	New Haven Water	59	3.00	5.1	3.32De	D3	4	17.8	90	63
2	O	Ohio Water Service	27	1.50	5.8	2.74Se	42	5	9.9	55	38
7	O	Phila. & Sub. Water ...	31	.50(e)	1.6	2.20De	11	D	14.1	23	29
2	O	Plainfield Un. Water ...	65	3.00	4.6	5.47De	37	8	11.9	55	40
3	O	San Jose Water	44	2.00	4.5	3.52Se	3	10	12.5	57	43
9	O	Scranton-Springbrook ..	17	.90	5.3	1.33Je	D2	8	12.8	68	29
4	O	Southern Calif. Water ..	14	.80	5.7	1.08Je	4	8	13.0	74	34
3	O	West Va. Water Service	25	1.40	5.6	1.85Se	41	1	13.5	76	17

Averages					4.6%				13.0	60%	
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A—American Stock Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. # July, 1955. Ja—January; F—February; Ma—March; Ap—April; My—May; Je—June; Jy—July; Au—August; Se—September; O—October; N—November; De—December. (a)—Paid 4 per cent stock dividend. (b)—Paid 10 per cent stock dividend. (c)—1952-55. (d)—Paid 25 per cent stock dividend. (e)—Also paid 5 per cent stock dividend. (h)—Paid 25 per cent stock dividend. (i)—Paid 2 per cent stock dividend. (j)—Paid 10 per cent stock dividend. (k)—Paid 3 per cent stock dividend. NC—Not comparable. NA—Not available. D—Decrease. X—Deficit in 1951. *On average shares. **1951 was an abnormally bad year.



What Others Think

Postelection Stirrings in Federal Power Policy

ELECTION results, like statistics, may be cited to support a variety of contradictory propositions. The results of the recent election have been and doubtless will continue to be used to buttress arguments pro and con with respect to the Eisenhower administration's "partnership" power policy. On the eve of his address to the National Reclamation Association in Salt Lake City last month, Secretary of the Interior Seaton said flatly: "I do not consider the results of the recent elections a rebuke to our water and power policies." But Representative Engle (Democrat, California), chairman of the House Interior Affairs Committee, views the defeat of former Secretary of the Interior Douglas McKay in Oregon as "a definite repudiation of the natural resources record of the Republican administration." Judging from polls showing the power issue to have been only one of many considerations with the voters, Engle's statement would seem to be an oversimplification. Nevertheless, it is clear evidence the Republican setbacks in the Pacific Northwest will be used freely by public power proponents to bolster their attacks on the administration's policies.

In this atmosphere, the postelection statements of Interior Department officials with respect to future plans take on added significance. Secretary Seaton's remarks

in Salt Lake City gave no indication that the administration intends to back away from its former policies. Speaking to the press, Seaton declared: "If there is anything wrong with the Eisenhower concept it's a question of salesmanship rather than practicality, right, and justice. I am not aware of any move to modify this administration's over-all policy." Seaton's address, however, stressed the public ownership aspects of water resources and the basin-wide approach to future planning, exemplified by the Upper Colorado river storage project passed by the last Congress. Seaton called the project "a momentous milestone in general reclamation legislation . . . because it provides a basin-wide approach—not only to the development of our water resources—but to financing of reimbursable costs."

SEATON noted that repayment of reimbursable phases of the Upper Colorado project will be taken care of through basin-wide account. The account will be built up by revenues which will come principally from the several hydroelectric plants on the project. In this way, irrigation projects in the Colorado river basin can be aided in pay-out even if they are not physically connected to a multipurpose storage dam at which power is produced. Said Seaton:

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I believe this policy to be a logical step in the multipurpose approach we are now taking to basin development. It is certainly worth considering in other river basins as well, and we should continue to press for a careful evaluation of such an over-all policy.

He emphasized that multipurpose development is also multiagency development. "There is a definite place," he said, "in multipurpose development for state and local agencies and for co-operative groups. They should have as much responsibility as they can reasonably be expected to assume."

Seaton went out of his way to reassure those who fear private participation in multipurpose projects will jeopardize basin-wide development. He noted that private company development of river sites is licensed only after plans have been reviewed by the Federal Power Commission and commented upon by the Department of the Interior and other affected agencies. "This procedure is calculated to make certain that those projects also fit into the multipurpose needs of the river basin. Certainly, the department I head will scrutinize all such proposals to assure that they fit into multipurpose planning."

SEATON revealed that Interior has several proposals ready for consideration by the next Congress which provide for partnership development of multipurpose river structures. "We see no reason to inflict the whole burden of financing of these projects on the federal government whenever and whenever nonfederal interests are willing to assume a share," he stated. "So long as the public interest is protected, the end results are the same."

Under total federal development, Seaton explained, hydroelectric plants will be amortized within a specified time, fifty years or less. Thereafter, revenue from

these plants is to be available to finance other resources development. Under the partnership plan, nonfederal utilities provide the necessary capital to construct the power facilities in multipurpose dams. In return, they get the power produced during the amortization period. Thereafter, the federal government may dispose of the power in any way the law provides. The revenue from its sale will be available for other purposes, just as it will be on dams totally financed by the federal government.

He continued:

By the same reasoning, the Federal Power Commission issues licenses for nonfederal development only for 50-year periods. At the end of that time, the government can, and should, take a new look. If a better or more important use is found for the water, the license need not be renewed. In cases where it is renewed, serious consideration should be given to a falling water levy. The revenue from this levy could be used for resource development just as it is in the federally constructed dams.

Make no mistake our rivers and streams are publicly owned resources. We are taking every possible measure to protect and enhance the public interest in them—and we should. But we do feel that they should be used, because conservation does not mean stagnation in our dictionary.

BASIN-WIDE development was also the theme of an address by Commissioner of Reclamation W. A. Dexheimer at the annual meeting of the Inland Empire Waterways Association in Yakima, Washington. "No longer can we allow our precious natural resources to be forever committed to a single segment of our economy," Dexheimer said. Only through co-ordinated and comprehensive planning, considering all the various interests, com-

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paring each alternative approach critically with all others, and weighing each in terms of its worth to the whole, can we realize the maximum effective utilization and proper conservation of our available resources." But multipurpose, basin-wide development does not mean a single agency plan or an entirely federal project, he emphasized. "There is room for public and private agencies alike and for local, state, and federal participation. The great need is for integrated planning and operation for maximum benefits."

It was at Yakima that Dexheimer revealed a new Interior plan for development of the lower Snake river in Idaho. An evaluation study made by the Bureau of Reclamation and submitted to Secretary Seaton indicated that a high dam at Pleasant Valley, presumably to be built by the federal government, would provide an additional 1,300,000 acre-feet of flood control for the Columbia river system. The plan envisages a giant storage and power project in the middle Snake and will, if finally approved, require revision of several projects planned by private utilities in the same area. The federal project would eliminate a dam planned at Pleasant Valley by the Pacific Northwest Power Company. Furthermore, construction of a high dam in this locality would flood out the Hell's Canyon site where the Idaho Power Company has scheduled a run-of-the-river dam. It would not interfere with Idaho Power's Oxbow and Brownlee projects, nor with Pacific Northwest Power's plan for a dam at Mountain Sheep.

DEXHEIMER paid tribute to the Upper Colorado river storage project as an excellent example of basin-wide planning for multiple use of available resources and said Interior is studying the possibility of establishing the same idea of a basin pool-

ing plan embracing the various projects in the Columbia river basin. He noted that assistance from power revenues for non-adjacent lands was made part of the authorization of the Chief Joseph dam project; in the closing days of the last Congress, the principle was again recognized by the authorization of the Crooked river project in central Oregon. This project would utilize the excess power revenues after the power features have been paid out at The Dalles dam to aid in the repayment of costs for irrigation development of about 20,000 acres of fertile land.

"The federal government cannot do all the development of resources needed," Dexheimer concluded. "It can and does do a large share. Co-operation in planning, financing, and operation is essential."

A POPULAR misconception is that partnership in resources development is something new. Robert E. Merriam, assistant director of the Bureau of the Budget, pointed out to the association that the concept goes back to the administration of Theodore Roosevelt. He noted that between 1906 and 1953 some 26 so-called partnership projects were constructed in 13 states, 12 of these being under Republican administrations and 14 in Democratic administrations. Since 1908, Merriam said, the Bureau of Reclamation has been making partnership arrangements with local water users' organizations or power companies for provision of power facilities connected with its reclamation projects. In 1917 a unique partnership agreement was worked out between the bureau and the California-Oregon Power Company on the Link river near Upper Klamath Lake. The greatest resources project now in process, the St. Lawrence river development, is proceeding under the combined efforts of the federal government, Canada, the state of

PUBLIC UTILITIES FORTNIGHTLY

New York, and the Province of Ontario.

Under the Eisenhower administration, three projects which had previously been authorized for federal construction have gone forward with local initiative, Merriam remarked. These partnership developments will provide 1,525,000 kilowatts of power at a total nonfederal power development cost of nearly \$500,000,000, thus allowing an equivalent amount of federal money to be spent elsewhere. Merriam noted that two of these three partnership projects were strongly backed by Democrats; the Coosa river development in Alabama (in which the hydroelectric features are being constructed by a private utility) was urged and supported by Senators Sparkman and Hill and eight of the nine Democratic Congressmen from Alabama, and the Markham Ferry project in Oklahoma (where a state agency is developing hydroelectric features) was backed by Senators Kerr and Monroney. In both instances, said Merriam, previously authorized federal development had not proceeded for a number of years because of the competition for federal dollars.

MERRIAM revealed that a dozen or so other partnership projects which would involve federal participation are now under consideration. These proposed projects, he said, could develop as much as 5,000,000 kilowatts of power, at an approximate saving of \$2 billion to the federal government. In the Pacific Northwest, licenses have been issued in the past three years for power development—in addition to federally authorized developments—amounting to 3,200,000 kilowatts. "Our best current estimate," he stated, "is that \$40 billion will be needed to provide national power needs over the next ten years." In the Pacific Northwest alone, he said, at least 12,000,000 kilowatts will be needed during the next two decades to

meet estimated needs. In the past four years the federal government has spent \$3.5 billion for the construction of water resource and power projects. Expenditures for the current year, Merriam predicted, will reach approximately three-quarters of a billion dollars. He continued:

When we look at the resource field in the light of these facts we find that as of now the Congress has authorized projects costing an estimated \$10 billion on which no work has yet been started. The demands to authorize more such projects come from every section of the land. Natural disasters such as the floods in New England and California last year highlighted specific area problems. It would take years to build all authorized projects, even at a vastly accelerated rate of construction. No one area can ever expect a President and a Congress, representing as they collectively do all of the country, to funnel all or even most of the available federal money for resource development into that area to the exclusion of everyone else. . . . However, let there be no misunderstanding. This administration will exert every effort to provide to the maximum possible extent consistent with other requirements our share of your needs.

PARTNERSHIP in resource development is not a question of favoring one group over another, Merriam concluded, stating:

It is simply a matter of plain common sense, and urgent necessity. We all agree that investment in development of our natural resources is one of the best investments we can make. This administration is firmly devoted to that philosophy. And we also realize that that good power investments not only are sound, but that they will be repaid. But what some people seem to forget is

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that if a federal investment is made in power resources which could just as well be built by state, local, or private resources, then for the 50-year period of repayment, at least, this money will not be available for other developments

which perhaps could not be built by others.

Merriam said the time has come to take a hard and careful look to see where we are—to stop bickering.

A Veteran Expert Looks at Regulation

JUDGE McKeage well deserves the laudatory comment written as a foreword to his book by Chairman Eugene S. Loughlin of the Connecticut Public Utilities Commission and former president of the National Association of Railroad and Utilities Commissioners. A former judge of the superior court of California, as well as a federal hearing commissioner during World War II, Judge McKeage is best known in utility circles for his twelve years of service as chief counsel of the California Public Utilities Commission. In his own preface, Judge McKeage points out that "general treatises on administrative law do not reach the specific problems of public utility regulatory law, a field that constitutes, within itself, a very large body of law."

In effect, his book, "*Public Utility Regulatory Law*," brings together for the first time seven articles on utility regulation previously published or handled in the form of addresses by the author in recent years. The seven chapter headings suggest the coverage: (1) the place and functions of the regulatory commission; (2) the genesis of the Interstate Commerce Act and its effect on state regulation; (3) valuation of public utility property; (4) due process in administrative law; (5) state regulation of air carriers; (6) the repudiation of the Ben Avon decision; and (7) public utility regulation in California.

The general reader will find the chapter on valuation quite provocative. Judge

McKeage has some very definite ideas on this subject and he has small sympathy for the "eminent domain theory" of allowing the utility a reasonable return on its investment. He states:

No contention is herein made that it would be unlawful to value property in a rate case at fair value or fair market value, as has been done in many cases in the past. Some day the courts may outlaw such procedure, but that has not been expressly done as yet. I believe that the cost basis is preferable for valuing *all* property for rate-fixing purposes. The prudent investment theory, with reasonable adjustment for special situations, recommends itself. Even though we may have no ready-made name, slogan, or label to affix to such formula, we should not hesitate to adopt it if reason and justice demand. . . .

The author adds the qualification that no basis or formula can be devised, in his opinion, that will produce exact results or exclude all uncertainty or exercise of judgment in rate valuation. He does contend, however, that the present rule followed by the U. S. Supreme Court is a vast improvement over the "former chaos," referring to the day of reproduction cost ascendancy.

PUBLIC UTILITY REGULATORY LAW. By Everett C. McKeage. Vantage Press, New York, New York. 107 pp. Price, \$5.



The March of Events

FPC Refuses State License for Niagara Units

THE Federal Power Commission recently ruled that it lacks authority to issue a license to New York state for construction of new power plants at Niagara Falls.

The commission said it could not determine the validity of a reservation initiated by the Senate to a 1950 treaty between this country and Canada concerning additional diversion of Niagara river water for power purposes. The Senate reserved for itself the right to name the agency or corporation that would carry out the development. In 1953 the House voted to give such authority to a group of five New York state private utilities. Senate inaction killed the bill.

The application for the project had been filed on August 20th by the New York State Power Authority. On November 14th the commission heard oral argument

on the question of its authority to issue the requested license. FPC's decision is expected to be contested in the courts.

Pipeline's Deadline off Again

THE Canadian Board of Transport Commissioners on November 30th extended from December 1st to February 1st the deadline in which Trans-Canada Pipe Lines, Ltd., must show it can arrange for the \$370,000,000 financing necessary for the construction of the world's longest gas pipeline—some 2,340 miles. It was the sixth deadline postponement in two years for the gas utility company, which has already completed construction of some 218 miles of the line.

Witnesses appearing in Ottawa on behalf of the utility told the board they were hopeful they could finance adequately the project in the next two months. They noted that the money market had deteriorated.

Illinois

Files Revised Rate Schedule

COMMONWEALTH EDISON COMPANY recently filed with the state commerce commission a proposed revision of its residential rate schedule to establish a new attractive rate for uncontrolled electric water-heating service.

Providing a charge of 1.5 cents per kilowatt-hour for water-heating service on a 24-hour-a-day basis, the new rate would apply to residential customers of Commonwealth Edison and its Public Service Company division.

According to the utility, rate revision would enable local home owners to take

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advantage of more compact, quick recovery electric water heaters. These new electric water heaters replenish hot water

after draw-offs at a faster rate to provide more efficient hot water service from a small-sized tank.

Mississippi

New Procedure Rules

CHAIRMAN Rubel L. Phillips of the state public service commission announced last month that new rules of practice and procedure for the regulation of utilities in the state will be put into effect on January 1st, covering electric, natural gas, water, and telephone companies. He added that a similar revision of rules and regulations governing rail and highway transportation

would be adopted later by the commission.

A tentative set of new rules of practice and procedure was forwarded to utilities by the commission several months ago to obtain their views for possible changes. Open hearings have since been held.

"We are working with the utilities for the best possible set of rules and regulations and will go along with them on suggestions, so long as the best interests of the public are maintained," Phillips said.

Pennsylvania

Commission Orders Refund

THE state public utility commission last month ordered Pennsylvania Power & Light Company to refund \$6,320,736 to its customers. The order said the rebate covered excessive charges and interest over a 2½-year period ended February 28, 1955.

The sum includes \$5,267,280 which the commission charged was excessive collection and \$1,053,456 in interest, which the commission fixed at 20 per cent.

The action was the result of a state superior court mandate which required the utility to eliminate as an operating expense the annual amortization of amounts it paid in excess of original costs to purchase smaller utilities which had merged into its 28-county system. These expenses were allowed by the commission in 1952, but were later appealed by 198 manufacturing and commercial concerns and taken to the superior court.

The refund and interest, on a pro rata basis for all residential, industrial, and commercial consumers, will amount roughly to 2½ per cent of what each paid

during the rebate period. The refunds will date from August 12, 1952.

Commission Defers Gas Rate Increase

THE state public utility commission recently postponed another three months to next March 2nd an estimated \$1,233,800 annual natural gas rate increase proposed by the Pennsylvania Gas Company, Warren.

A 6-month suspension of the increase ended December 2nd, but the commission said it could not complete an investigation before that time. Another round in a series of hearings was scheduled to be held in Harrisburg from December 11th to 13th.

A number of protests were filed against the increase, including those from the city and county of Erie and consumers.

The increase was filed to go in effect last June 2nd, but the commission delayed it for the inquiry.

The utility wants to raise charges to most of its 57,700 consumers in Elk, Erie, Forest, McKean, and Warren counties.

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Rhode Island

Asks Electric Rate Hike

AN application for a general rate increase, averaging about 9½ per cent, was filed with the state division of public utilities by the Narragansett Electric Company last month, to be effective January 1, 1957.

The rate increase, which would produce about \$1,450,000 in new revenue after taxes, represents boosts of about 13 per cent for domestic users of electricity, about 4 per cent for commercial and industrial power, about 28½ per cent for gas customers in Westerly, Warren, and Bristol, and about 10 per cent for farm users.

Figures supplied by the company indicated that the increases would run about

\$10 a year for domestic users of electricity and to about \$18.25 annually for gas customers in the three communities.

Ralph E. Nock, vice president and general manager, said the increases, which are the first sought by the company on a system-wide basis in thirty-eight years, will amount to less than "three cents per day on the average to our 172,000 residential electric customers and five cents per day to our 6,000 gas customers in Westerly, Warren, and Bristol."

State Senator Ralph T. Lewis (Republican, Warwick) wired Thomas A. Kennelly, state public utilities administrator, expressing his desire to be heard before the administrator acted on the application.

Vermont

New Electric Firm Authorized

THE state public service commission recently authorized formation of the Vermont Electric Power Company, Inc., with the express condition that it not be construed as an exclusive franchise for handling St. Lawrence power.

The new firm was authorized to have \$1,000,000 in capital stock. Its main office will be in Rutland. It will be set up by three officials of the Central Vermont Public Service Corporation, the state's

largest electric utility, it was reported. They are Central Vermont Public Service's President Albert A. Cree, Vice President Harold L. Durgin, and General Counsel Edwin W. Lawrence.

In 15-point findings, the commission ruled it would be in the general good of the state to have the new company. But it stipulated this finding was not to be prejudicial to any other company nor interpreted as a commitment for the corporation to transmit and distribute St. Lawrence power.

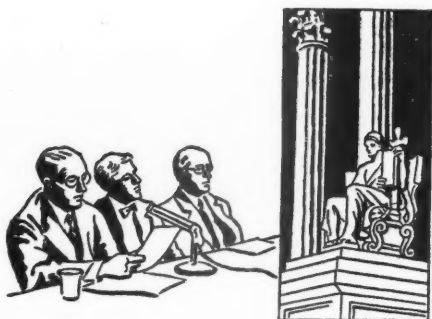
Washington

To Pay Street Repairs

THE Spokane Natural Gas Company recently submitted written assurance to the city council that it would reimburse the city for any street repairs it may be required to make as the result of gas main excavation. The public works commissioner had said his crews would not continue

work without assurance of reimbursement.

The letter, signed by the gas company's president, said the company "realized its responsibility" for maintaining cuts in paving, dirt streets, and alleys. The company, it was said, would pay on the tenth day of the month following the date of billing.



Progress of Regulation

Trends and Topics

Foreign Attachment Ban by Telephone Company

THE action of a federal court in setting aside an order of the Federal Communications Commission (12 PUR3d 73) dismissing a complaint against a rule prohibiting Hush-A-Phones (silencing devices attached to telephone instruments by subscribers) raises the question as to how far a telephone company may go in prohibiting foreign attachments (decision reviewed at page 1013 in this issue of PUBLIC UTILITIES FORTNIGHTLY). Over a long period of years, general prohibitions against foreign attachments have been upheld. Such a rule, for example, was approved in Indiana in 1915 (PUR1915A 930) and again in 1930 (PUR1930B 431). But in the Hush-A-Phone Case the court drew a distinction between foreign attachments which might affect only the subscriber's use of his telephone and attachments which might be publicly detrimental.

Necessity and Nature of Restriction

AN examination of decisions on foreign attachment prohibitions reveals uniform support for the right of a telephone company to control all the facilities which it owns. This has been deemed necessary in order that the company may meet its obligation to provide adequate service. The problem, however, is to fix the point where the company's operation and responsibility would end.

If the subscriber is willing to impair his own service, can the company object? If this also impairs the service of the one to whom he is talking, is that a "public" detriment? The decisions do not specifically settle these questions, but the views expressed do shed some light on the problem.

The Oregon commission expressed the opinion that to permit subscribers to attach their own equipment to a company's lines would result in injury and impairment to service and would be contrary to public interest (16 PUR NS 348). It was pointed out that attachments by subscribers would not only result in the company losing control over the instrumentalities of service, but would also result in the commission losing regulatory control.

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The Ohio commission upheld a telephone company's rule providing that if unauthorized attachments were made by the subscriber to telephone facilities, the company should have the right to disconnect such an attachment or suspend service.

The commission decided that the company might properly suspend service to a subscriber employing a telephone-answering device ("telemagnet") not feasible for use on all the company's phones where such device violated the rule prohibiting unauthorized attachments and the company made available to the customer a similar device (8 PUR3d 350). Lack of control by the company would prevent it from correcting deficiencies in service. The commission said it must be stressed that not only the service of this subscriber must be considered, but also service to in-calling subscribers.

Ban on Direct Interference with Instruments

The New Jersey commission, years ago, approved a rule prohibiting the use of any apparatus or appliance not furnished by the company (PUR1920D 137). The Quick Action Collection Company had been using a device attached to its telephone which held the receiver to the ear, opening and closing the circuit automatically, so that both hands of the person using the phone were free. The telephone company ordered removal of the device. It appeared that the attachment required disconnection of the standard receiver and receiver hook. A small iron bar was provided which was to be inserted in place of the receiver hook. To this was attached an extension bracket of the "lazy-tongs" type, at the end of which was attached a receiver. The commission said that if private ownership of any part of the facilities were permitted, the telephone company would, to that extent, lose control over the instrumentalities of the service.

The California commission did not think a telephone company should be required to permit the attachment of an automatic fire-alarm device to subscribers' facilities when the evidence indicated that the proposed attachment was unworkable from an engineering standpoint and it might interfere with the normal function of the telephone system at large (78 PUR NS 143). Prohibitions against telephone-answering devices have also been upheld in California (90 PUR NS 185).

An Oklahoma court ruled that the sale by a manufacturing company of metallic advertising devices to telephone users for attachment to handsets constituted a repeated and continuing inducement to the users to breach their contracts with the company in which they agreed not to permit the attachment of any advertising devices upon their instruments except with company approval (93 PUR NS 425). The court decided that this device interfered with the operation of dial telephones, damaged the instrument, caused confusion as to the origin of toll calls, and deprived the company of the use of the dial center space for instructions to users.

The New York commission, in one case, decided that a regulation prohibiting the attachment of any apparatus or device not furnished by the company need not be amended or declared unreasonable, in so far as an alleged improved dial finger wheel was concerned, whereby comparison of the equipment of the

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company was not shown to be inadequate, inefficient, improper, or insufficient (10 PUR NS 323).

Telephone companies have been held justified in prohibiting the use of switches, call bells, extensions, or other devices whereby other than subscribers are allowed to receive or transmit messages over rural lines of mutual switching companies or through the central office of the telephone exchange (PUR-1925E 778).

General Prohibition

The New Jersey commission, in approving a prohibition against foreign attachments, said that if an attempt were made to allow exceptions, it would be difficult, if not impossible, to draw a distinction between units of equipment owned by subscribers which might be serviceable in connection with the system and those which could not satisfactorily be used (PUR1920D 137).

The Louisiana commission, in upholding such a prohibition in a case involving an answering device, expressed the opinion that it is impracticable to deal with a matter of this character except by a rule of general application (87 PUR NS 33).

Limitation on Attachment Ban

The New Jersey commission, in a later case, said that the fundamental tests in determining the reasonableness of a company regulation prohibiting foreign attachments to instruments are (1) whether the attachment would interfere with the company's rendering safe, adequate, and proper service, and (2) whether the attachment would place an unreasonable burden on the company's subscribers in general (100 PUR NS 124). Automatic answering devices not supplied by the Bell company were found to be unsuitable, but the commission would not give unqualified approval to a prohibition against "every instrument or device linked in any way with telephone service." The commission said it would be contrary to public policy to extend the monopoly of a telephone company to a degree not intended by the legislature and stifle advancement in the highly complex and important art of telephony.

Interference with Property Rights

Aside from interference with service, there is also the question of the telephone company's property rights. This question arose in the recent case (reviewed in PUBLIC UTILITIES FORTNIGHTLY, October 25, 1956, at page 732) involving plastic covers for directories. A complaint by Illinois Bell Telephone Company to prevent their distribution to subscribers for advertising purposes was sustained by an Illinois court. The company owns the directories and may bar outsiders from inducing subscribers to interfere with them, even though the operating mechanism is not involved.

Review of Current Cases

Subsidiary's Rate of Return Based on Parent's Capital Cost And Rate Base and Expense Questions Considered

CUMBERLAND & ALLEGHENY GAS COMPANY obtained permission from the Maryland commission to file rates calculated to produce a rate of return of 6 to 6½ per cent. The company's existing rates afforded a rate of return of only 4.78 per cent on an average net original cost rate base.

The commission observed that the company would secure capital for contemplated construction from a parent corporation. Therefore, in determining the rate of return for the subsidiary, the commission took into consideration as one element the cost of capital to the parent. Evidence showed that the parent's historical cost of debt capital was 3.36 per cent. However, it was noted that the prime rate for money had increased a full one per cent during the past fifteen months. Testimony further showed that the cost of common equity money was 10 per cent. The parent's debt ratio was 54 per cent.

Gas Field and Other Rate Base Items

A number of contentions were put forward by parties opposing the rate increase. The company had purchased a natural gas field for \$4,000,000 and later discovered that the field's gas reserve amounted to a third less than had been anticipated at the time of purchase. Because of the questionable advisability of the purchase, it was contended that the company's final installment payment should be excluded from the rate base. The company had considered all available information relating to the field before buying it, and no evidence was offered to show that it acted negligently in evaluating the information. In these circumstances the commission allowed the

payment less interest on the amount involved.

The commission allowed the company's prepaid accounts as a part of the rate base. It disallowed a claim for cash working capital, pointing out that the company enjoyed a lag in its payments for labor, materials, supplies, gas, and other purchases. Furthermore, large tax accumulations were available for working capital so that additional working capital was not needed.

Also excluded from the rate base were customers' refundable advances for construction. As with contributions in aid of construction, the commission indicated, to allow a return on such items would, in effect, amount to an allowance of a return on customers' own money.

Gas Cost and Other Expenses

The company had contracted to pay for a minimum of 10,800 Mcf of gas per day. Since the test year peak demand was little more than 6,000 Mcf, the opposing parties claimed that the contract cost of the remaining 4,000 Mcf should not be allowed as an expense. The commission indicated that it could criticize the company's contract only if it were shown that the means by which the company determined its peak demands were improper. No such showing was made. On the basis of the test year only, the commission said it could not presume to dictate some other method of determining the peak demand, which might result in a shortage of supply. The full cost of the 10,800 Mcf was therefore allowed.

Similarly, in the absence of any evidence that the company had not made reasonable efforts to minimize losses of un-

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accounted-for gas, the full measured amount of such losses was allowed. The commission refused to accept as a "normal" loss a figure based upon computations of another year or upon the operating experience of another company. The loss will necessarily vary from year to year and from company to company as a result of the changes in operating systems and constantly varying conditions.

It was urged that the company should not be allowed to increase the depletion charge which was originally established on the basis of the initial estimate of reserves. The commission thought, however, that a realistic rate of depletion should be charged against the field and therefore authorized a substantial increase. No evidence was offered to indicate that the present calculation of reserves was incorrect. The company proposed to eliminate

discount forfeitures incurred by customers who failed to pay their bills within the prescribed time. The result of eliminating forfeitures would be to charge all customers to make up the amount so lost. The proposal was denied as being unjustifiable at this time, considering the difficulty that the company had had in recovering a reasonable return on its plant.

Amortization of the cost of three rate cases was authorized over a period of five years. Opposing parties argued that a 10-year period should be used in view of the fact that there were only three cases during the last twenty-eight years. Since, however, all three had occurred after 1952, the commission thought the matter should be viewed in the light of recent experience. *Re Cumberland & Allegheny Gas Co. Case No. 5463, Order No. 52492, November 9, 1956.*



Telephone Company Ban on Silencing Device Not Supported by Proof of Public Detriment

THE United States court of appeals has set aside and remanded an order of the Federal Communications Commission (12 PUR3d 73) which dismissed a complaint of the Hush-A-Phone Corporation against telephone tariffs prohibiting the use of silencing devices on telephone instruments. The court believed that there were no findings to support the commission's conclusion that the use of a Hush-A-Phone involves public detriment.

The effects of using a Hush-A-Phone, the commission had found, are to give the user privacy against near-by eavesdroppers and to make for a quieter line by excluding extraneous noise. It was conceded that the person to whom the Hush-A-Phone user is speaking hears a lower and somewhat distorted sound. Apparently, according to the court, this diminution of volume and clarity of the user's voice, as

heard by the party to whom he is speaking, rather than any effect upon the system generally, was what the commission meant when it spoke of impairment of service. The commission had weighed the silencing device's benefit of privacy against the public detriment involved in the loss of intelligibility, and had concluded that it was not unjust and unreasonable to forbid its use.

Commission Control over Telephone Use

In considering the commission's control over a subscriber's use of his telephone, the court pointed out that the commission asserted a right to prevent the subscriber from conversing in comparatively low and distorted tones by aid of a device other than his own body. The telephone company did not challenge the subscriber's right to seek privacy. It merely

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said that he should achieve it by cupping his hand between the transmitter and his mouth and speaking in a low voice. The court believed that this was no less likely to impair intelligibility than the silencing device itself. In neither case, however, would any one other than the two parties to the conversation be affected.

The court concluded, therefore, that the tariff prohibition constituted an un-

warranted interference with a subscriber's right to use his telephone in ways which are privately beneficial without being publicly detrimental. The case was remanded because the court believed that it is the commission's function to determine what changes should be made in the tariff to render it just, fair, and reasonable. *Hush-A-Phone Corp. v. United States*, No. 13,175, November 8, 1956.



Rate Increase Upheld Despite Absence of Rate Base Determination

THE superior court of Pennsylvania upheld the commission in dismissing a complaint against a small telephone company's proposed rate increase. The record was held to support the increase and the commission's finding that the new rates were not excessive.

Fair Value Finding

The company had been in poor financial condition because of bad management. New management had taken over and inaugurated a program of rehabilitation. This program required higher rates. Since there were no records or funds to conduct a full-scale study, the new management attempted to prove in the usual manner that the proposed rates were just and reasonable. Evidence was presented as to the rate base, rate of return, annual revenues, depreciation, expenses, and taxes. To establish the rate base, the company submitted estimates of book cost depreciated, historical cost depreciated, reproduction new at spot prices as of a specific date, and reproduction cost at average 5-year prices. None of these was entirely acceptable to the commission.

Therefore the commission considered the experience of other small telephone companies comparable to the petitioning company. The court held that it was not

error for the commission to refrain from making definite finding of fair value, since there was sufficient evidence before it to conclude that the proposed rates were just and reasonable and that the fair value would be in excess of any amount necessary to support the rates.

Expensed Property

It was argued that the commission improperly failed to find that the plant property had been charged to operating expenses in prior years, and, therefore, excluded from the rate base. This argument was rejected, however, because no definite finding of fair value was made. There was merely a testing of the values that would clearly support a conclusion that the rates were reasonable. The commission said that this procedure is not to be approved or condoned generally but that it was permissible under the particular circumstances in this case. Furthermore, there was nothing substantial in the record to indicate that the property had been charged to operating expenses in prior years.

The most that could be said of the testimony was that it showed payment for property as it was purchased or as improvements were made. It does not follow that the property was therefore "ex-

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pensed," resulting in a dual rate allowance.

Past Dividend Payments

It was also argued that the previous rates must have been excessive because the prior management paid cash dividends from 1931 to 1949 in an amount approximating 188 $\frac{1}{2}$ per cent of the par value of the outstanding stock. The dividends averaged 8.2 per cent annually for those years. The court said that although the dividends appeared high, this might be considered as an indication of previous mismanagement. This money prob-

ably should have been part of a depreciation reserve to replace worn-out and obsolete equipment. As a matter of fact, the unbusinesslike conduct of the prior management ultimately resulted in financial embarrassment of the company. The court said that the present users of service should not be required to undergo further deprivation of reasonable service merely because the inadequacy of prior management was not discovered until the company's position was almost hopeless. *Wall v. Pennsylvania Pub. Utility Commission*, 125 A2d 630.



Accounting for Research Expenses of Electric Companies Engaged in Atomic Energy Program

THE Michigan commission has prescribed accounting methods to be followed by Consumers Power Company and Detroit Edison Company for disbursements made or expenses incurred in the design, construction, and operation of a developmental atomic power reactor. Payments made by these companies to Power Reactor Development Company, a non-profit corporation conducting the research and development work for a proposed fast neutron breeder reactor, may be charged to Account 801 (Miscellaneous General Expenses) of the Uniform System of Accounts.

The two companies are associated with other utilities and manufacturing concerns in a research program directed to the development of commercially competitive use of nuclear materials to produce steam for generating electric energy. Power Reactor Development Company has received a license from the Atomic Energy Commission to construct a fast neutron breeder reactor. The electric companies believe that this reactor offers the greatest possibility for the economically feasible development of atomic energy for

electric-generating purposes. This belief is supported by the acknowledged experts in this particular field. It was pointed out that while the construction of such a developmental reactor will not be economic, it is expected to make possible the design, construction, and operation of a commercially competitive reactor at a later date.

The commission found that the electric companies have a responsibility to engage in this research and developmental work and that their participation in the programs designed to accomplish it is in the public interest.

Evidence of Indebtedness

A question was raised whether the electric companies' proposal to guarantee the principal and interest of bank loans made to Power Reactor Development Company constitutes evidence of indebtedness. The commission held that the execution of a guaranty agreement does constitute evidence of indebtedness. *Re Consumers Power Co. D-875-A-56.1, November 14, 1956; Re Detroit Edison Co. D-1282-A-56.1, November 9, 1956.*

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Submetering by Trailer Park Allowed though Technically Violative of Electric Tariff

IN view of a retail electric company's long-standing practice of tacitly consenting to the resale of electricity furnished to customers, though technically in violation of its filed tariff, the Ohio commission ordered the company to continue service to a trailer park which resold energy to tenants.

With the company's full knowledge and consent, the trailer park had installed an expensive underground system to provide electric service to trailers. Without objection, the company furnished energy which was resold on a flat rate basis. However, when the park determined to install a meter system to avoid substantial losses suffered under the flat rate system, but with no intention of making a profit, the company invoked a tariff provision prohibiting the resale of energy except with the written consent of the company. Though written consent was not shown, the commission found that tacit consent had been given to the resale practice, not only as to the trailer park but in many other cases in the area.

By virtue of its failure to enforce the provisions of its tariff, said the commission, the company has created a situation

which could not be changed immediately. The mere fact that it neglected to give consent in writing as spelled out in the tariff did not change the fact that consent had actually been given and that the customers were entitled to rely on that consent. The commission ruled that to permit the company to invoke a technicality of its tariff as to written consent, in view of its past conduct, would be grossly unfair to the trailer park.

Dissent Cites Public Protection

A dissenting commissioner expressed the view, however, that the commission's decision was contrary to sound regulatory practices. That the company had failed to apply its submetering tariff provisions in a vigorous manner, he pointed out, should not now estop the company from enforcing them. Noting that the commission had no authority to regulate the charges and services afforded by landlords to their tenants, the commissioner asserted that, from the standpoint of proper protection for the general public, the provisions against submetering should be enforced. *Long v. Columbus & Southern Ohio Electric Co. No. 25,369, November 21, 1956.*



Travel Agency's Use of Chartered Buses Upheld

AN Interstate Commerce Commission order extending the authority of a travel agency and allowing it, as a broker, to use vehicles chartered from bus operators having only charter authority was upheld by a federal district court in an action by passenger motor carriers to set aside the order.

The agency normally sold individual "certificates of membership" in specific all-expense tours, chartering vehicles from

a licensed bus operator for the purpose. The protesting carriers urged that the agency should use only buses chartered from carriers having authority to sell individual tickets. Otherwise, it was said, operators having only charter authority could, through the services of an obliging broker, in effect offer individual passenger service, contrary to the limitations of their authority.

The court refused to set aside the com-

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mission order, observing that the travel agency was not in fact participating in any sham device to give charter operators broader transportation authority than their certificates allowed them. If charter operators should collude with brokers for illegitimate ends, the commission's investigative powers would be ample to deal with any such abuse.

Considering the agency's long-standing practice with respect to the use of char-

tered buses, the court intimated that its traditional way of doing business should not be disrupted. Nothing appeared in the Motor Carrier Act contrary to the agency's established practice.

Moreover, the Interstate Commerce Commission's decision in the agency's favor was found to be consistent with the national transportation policy. *National Bus Traffic Association, Inc. et al. v. United States et al.* 143 F Supp 689.



Steamship Certificate in Public Interest

THE California commission granted a certificate of public convenience and necessity to a company to operate steamships between the harbors of San Francisco and Los Angeles for the transportation of automobiles and motor freight carriers, including tractors, trucks, and trailers. The proposed service would stimulate port activity at two of the major ports of the West coast, would help eliminate traffic congestion on the overcrowded highways between the two cities, and would result in financial savings to the truck carriers and, eventually, to the shipping public.

Use by Highway Carriers

Highway carriers, the commission concluded, could lawfully use the proposed service and still retain their identity and rights as "for hire" motor carriers through movement of freight. The commission could find nothing in the law that ex-

pressly prohibited truck carriers operating under its jurisdiction from using the service.

In expressing its opinion, the commission pointed out, it did not mean to imply that the service would necessarily be lawful for all carriers under all circumstances. Whether a contract carrier could use it would certainly depend in part upon the terms of his contracts with shipper customers. Whether a radial highway common carrier could use it would depend in part upon whether it was used with such frequency as to transform him into a carrier between fixed termini in violation of the limitations on his rights. Determination as to the legality of the use of the proposed service by specific truck carriers under specific circumstances would have to be made from time to time by the commission. *Re Pacific Trailer Ships, Inc. Decision No. 53847, Application No. 37404, October 1, 1956.*



Public Need and Inadequacy of Existing Service Support Certificate Extension

THE Pennsylvania superior court affirmed a commission order authorizing a common motor carrier to render additional service. The evidence, pointed

out the court, need not indicate an absolute necessity for additional service, nor is it necessary that the proposed service be absolutely indispensable. The applicant

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had successfully met the burden of proving the need for its proposed service and the inadequacy of the existing service.

Consideration, said the court, could not be accorded to a protesting carrier who had not been giving the public the service to which it was reasonably entitled until another carrier sought to render competitive service. The court was limited, upon review, to the question of whether there was substantial evidence to support the findings and order of the commission. Substantial evidence was defined as relevant evidence which a reasonable mind might accept as adequate to support a conclusion, especially when considered in connection with the accommodation or convenience of the public.

Evidence Substantial

The applicant, from the point of view of time and distance, was better able to provide the service required by the shipper. The applicant could furnish direct and through service to the customers of the shipper without the necessity of transferring or interchanging trailers with other carriers and without the necessity of loading the trailers specially to conform to the routes of other carriers. Cargo could be discharged at several points in one trip with dispatch and convenience to the public generally. While such evidence was not voluminous, the court held that it was substantial. *Modern Transfer Co. v. Pennsylvania Pub. Utility Commission*, 125 A2d 463.



Community Television Antenna Not a Public Utility

A COMMUNITY television antenna which received television signals from available sources, amplified them and sent them through a coaxial cable to subscribers' television sets by tap-off devices, was held by the California supreme court not to be a telephone, electrical, or telegraph corporation subject to commission jurisdiction.

Unless a community television antenna fell within one of the classes of public utilities enumerated in the statute, said the court, the commission had no jurisdiction over it. The commission had urged that television was merely an advanced form of telephony, the art of reproducing sounds at a distance (11 PUR3d 430).

Television and Telephony Distinguished

The court agreed that television and telephony had in common the transmission of voices for sounds, but the methods of transmission were different. By telephone one could carry on a 2-way communication by speaking as well as listen-

ing, and pictures of speaker and listener did not yet form a part of the communication. Telegraphy differed from both in that ordinarily neither voices nor pictures were transmitted. Each had in common the use of electricity, conduits, ducts, poles, wires, cables, instruments, appliances, etc., but no one of them included all of the features of the others.

Furthermore, the service by television as well as radio was more akin to that of music halls, theaters, and newspapers than it was to that of either telephone or telegraph corporations. Thus, under the Communications Act of 1934, those engaged in the telephone or telegraph business were regulated as common carriers, whereas television and radio broadcasting was recognized as a field of free competition.

Decisions in Other States Examined

The court noted that the question of whether a community television antenna was a public utility had been considered in at least two other states. In holding

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that it lacked jurisdiction because Congress had completely occupied the television field, the Wisconsin commission (89 PUR NS 149, 150) had expressed considerable doubt whether a community television antenna was a telephone company. The Wyoming commission, however, had determined that such an antenna was a public utility (6 PUR3d 129). It had sig-

nificantly based its conclusion on the ground, not that a community television antenna was a telephone corporation, but that under the Wyoming statute public utilities also included plants, property, or facilities for the transmission of intelligence by electricity. *Television Transmission, Inc. v. California Pub. Utilities Commission*, 301 P2d 862.



Transfer of Territory and Toll-free Service Denied to Subscribers

DENYING a number of petitions by individuals, the Alabama commission refused to require Southern Bell Telephone & Telegraph Company to provide service to an area within the territory of Ardmore Telephone Company. The petitioners desired service through Southern Bell's Huntsville exchange, 20 miles distant, because of economic connections with Huntsville. While the area was not at that time being served, Ardmore had completed financial and other preparations to furnish satisfactory service through its local exchange only seven miles away.

Testimony showed that Southern Bell's existing facilities would have to be revamped and expensive construction undertaken in order to furnish service to the area.

The cost would be substantial, necessitating a monthly charge of \$8 to \$9 as against \$3.30 per month for Ardmore

service plus a toll charge for calls to Huntsville. The only evidence of the needs of other persons in the area was a considerable number of applications for Ardmore dial service.

Because the area must be served by only one exchange, said the commission, in the interest of sound economy consideration must be given to the needs of the other persons located in the area. The commission thought that direct toll-free service to Huntsville was impractical on the ground of cost. Moreover, such service furnished at high cost would be unduly discriminatory as to other subscribers.

The commission did not consider the effect, if any, on the Ardmore company's future economy if it were required to relinquish the area involved, because of the dearth of testimony offered on the question. *Whitt, Group Expediter et al. v. Ardmore Teleph. Co. et al. Docket 14221, November 8, 1956.*



Commission Findings Sustained against Unsupported Exceptions

THE Vermont supreme court sustained a commission decision authorizing an applicant to operate a ferry service. The decision was appealed by a certificated ferry owner operating several miles

from the place of the proposed service.

Ample evidence satisfactory to the commission was presented to show financial responsibility of the applicant and the feasibility of the enterprise. The com-

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mission found that the new service would be in the public interest. On the other side, however, it was contended that the new ferry service would not serve the public interest because it would reduce the already marginal utility business of the appellant.

While numerous exceptions were filed against the commission's findings, chiefly on the ground of insufficient supporting evidence, the court was unable to discover any support for the exceptions. Only naked statements were offered to sustain

them, and this without supporting argument or citation of authorities.

A commission finding, said the court, must stand if the record discloses evidence which, upon any rational view, supports it, and even though there is substantial evidence to the contrary. The evidence must be considered by the court in the light most favorable to the findings. With these observations, and finding sufficient evidence to support the commission's decision, the court necessarily affirmed it. *Re Stowell et al.* 125 A2d 807.



Apartment Company Bus Service Not Regulable

THE New York commission ruled that it had no jurisdiction over an apartment development company which, for a period of fourteen years, had operated a bus for the convenience of tenants, their guests, and servants without any direct charge. The bus was operated on schedule and made stops at a near-by shopping center, a railroad station, and local schools. While no fares were collected, the company conceded that if the service were discontinued, the tenants would probably be entitled to a reduction in rent.

The decisive question for the commission was whether the company operated the bus "for hire" or "for compensation" within the meaning of the words as used in the public service statutes. The ques-

tion was decided in the negative. The service was neither that of an omnibus line nor a contract carrier. Nor could it be classified as a hotel bus service because the apartment development was in no sense a hotel.

The terms "for hire" and "for compensation," said the commission, are terms of art customarily used to describe the familiar motor vehicle operations of common carriers (and omnibus lines) or contract carriers which operate for a fixed charge. The fact that a particular transportation service is not rendered wholly gratuitously does not necessarily mean that it is "for hire" or "for compensation." *Re Larchmont Apartments, Inc. Case 20,427, November 13, 1956.*



ICC Grant of Railroad Subsidiary Certificate without Restrictions Upheld

CLARIFICATIONS of §§ 5(2)(b) and 207(a) of the Interstate Commerce Act resulted from an appeal by motor carriers from the Interstate Commerce Commission's grant of a railroad company's subsidiary motor carrier's application for a certificate without restrictions that its

motor service be auxiliary or supplementary to the rail service.

Section 5(2)(b) provides that whenever a carrier by railroad, or its subsidiary, is an applicant for approval of a transaction involving a motor carrier, the commission shall not approve the appli-

PROGRESS OF REGULATION

cation unless it finds that the transaction will enable the carrier to use service by motor vehicle to public advantage in its operations. Section 207(a) of the act provides that a certificate shall be issued to any qualified applicant if it is found that the proposed service is or will be required by the present or future public convenience and necessity. The latter section does not contain the requirement of the former that the proposed service be used in the operation of the railroad if a railroad is the applicant; i.e., that the service be auxiliary or supplementary to the rail service.

Policy of Requirement More Flexible

Appellants had claimed that the requirement of § 5(2)(b) should be read into § 207(a). The court, however, upheld the commission's contention that the policy, not the terms, of the requirement applied to the issuance of certificates under § 207(a). A policy requirement was not so rigid as a flat requirement in terms

but was flexible and permitted a grant in exceptional circumstances where the commission found that the public interest, convenience, and necessity required the grant.

Certificate Properly Issued

The commission had the power to grant a certificate to a motor carrier wholly owned by a railroad without placing a restriction therein that the service should be auxiliary or supplementary to the railroad service, and the commission's findings, in this case, that public convenience and necessity justified the grant, were supported by the evidence.

Interstate "peddle" traffic alone was not profitable and business communities along the railroad route needed such service.

The applicant, which already had rail originated and intrastate traffic, could readily render such additional service. *American Trucking Asso., Inc. et al. v. United States et al.* 144 F Supp 365.



Antitrust Law Invoked against Railroads in Interterminal Transfer Case

A UNITED STATES district court ruled that a complaint by a transfer company against a number of railroad companies and others stated a cause of action for damages and injunctive relief under the Sherman Antitrust Act. The act forbids conspiracies to restrain or monopolize interstate trade or commerce. It authorizes the recovery of damages and the obtaining of an injunction by any person injured by a violation of the act.

The transfer company had for many years furnished interterminal passenger and baggage transfer service for railroads in Chicago. The company's complaint charged that the railroads conspired with the purpose and effect of eliminating com-

petition in bidding for an exclusive contract to provide the interterminal service. It was alleged that, although the plaintiff provided better and cheaper service than any of its competitors, the contract was awarded to another company, newly formed for the purpose, at a higher cost than previously required.

The Purpose or Motive Element

The court noted that this transfer service constituted interstate commerce within the protection of the Sherman Act, and that the granting of an exclusive contract for the service had been held not to amount to a monopoly under the antitrust laws. The railroads contended that they

PUBLIC UTILITIES FORTNIGHTLY

were not competitors but were a single buyer of the transfer service and as such were free to deal with whom they pleased. The complaint, however, alleged that the purpose and effect of the joint action were to prevent competition in bidding for the contract.

Acts otherwise lawful, the court observed, are within the proscription of the antitrust statutes if done to eliminate competition.

Competition may be as effectively eliminated by preventing it from coming into existence as by destroying it after it has been established, both methods being equally repugnant to the antitrust laws. While, of course, the railroads may deal with whom they please, said the court, they may not deliberately close competi-

tion in an important field of interstate commerce. If the effect and purpose of the railroads' conduct were to restrain or monopolize interstate commerce, the motive which inspired it, whether good or bad, would be irrelevant.

The railroads urged that the complaint was defective because it failed to allege an injury to the public as distinguished from a mere private wrong, a public injury being required under the act. The court ruled, however, that the allegation of the elimination of competition for the contract was itself sufficient on this point. Furthermore, the allegation of increased cost with a decline in the standard of service also set forth a public injury. *Parmelee Transp. Co. v. Keeshin et al.* 144 F Supp 480.



Unauthorized Operation Not a Bar to Certificate

THE Pennsylvania superior court held that the mere fact of prior operation without commission approval was not *per se* equivalent to an offense which would prohibit absolutely the acquisition of proper authority when application was subsequently made. The distinction between violations which are prohibitive and those which will be accepted as competent evi-

dence is to a large degree dependent upon the existence of good faith. If the violation was a result of bona fide misunderstanding of the service authorized by the commission, there was no substantial basis to object to its use in a certification proceeding. *Pennsylvania R. Co. v. Pennsylvania Pub. Utility Commission*, 125 A2d 624.



Extensions of Temporary Authority Improper

THE United States district court set aside an Interstate Commerce Commission order extending the temporary authority of a water carrier.

The order was set aside on the ground that it constituted an *ex parte* extension of temporary authority beyond the maximum period of 180 days prescribed in

§ 311(a) of the Interstate Commerce Act. The court held that the additional extension was not sanctioned by § 9(b) of the Administrative Procedure Act, which deals with expiration of authority pending application for a new license. *Atlantic Coast Line R. Co. v. United States*, 144 F Supp 53.

PROGRESS OF REGULATION

Other Recent Rulings

Experience Data Required. Although a telephone association showed large expenditures for conversion to dial operation, the Colorado commission denied a substantial rate increase sufficient to provide for plant replacements and additions to surplus, chiefly on the ground that the proposed increase should await the accumulation of experience data. *Re Eastern Slope Rural Teleph. Asso., Inc. I&S Docket No. 389, Decision No. 46671, October 17, 1956*

Fare Differences Not Unconstitutional. The New York supreme court held that a transit authority could establish higher fares on one division of the city's rapid transit system than on other parts without denying residents and taxpayers in the area affected equal protection of the law guaranteed by the Constitution, since differential treatment is not within the constitutional ban if reasonably applied to all members of a class or category. *Re Love, 155 NYS2d 266.*

Abandonment of Express Service. A request by an intrastate railway express agency for permission to discontinue service to a community because of the discontinuance of interstate rail service which the express agency used was denied by the Wisconsin commission where motor transportation could be substituted and where there was a public need for the service sufficient to afford a small amount of revenue over out-of-pocket costs. *Re Railway Express Agency, Inc. 2-R-3107, October 25, 1956.*

Economies from Train Discontinuance. The Wisconsin commission granted a railroad permission to discontinue certain passenger trains where substantial

economies would be effected, no real need for continuing service had been shown, and although the trains under consideration had a better passenger load factor than most trains considered in discontinuance proceedings, the communities were adequately served by the railroad's other trains as well as by other carriers. *Re Chicago & N. W. R. Co. 2-R-3076, October 19, 1956.*

Finding Inadequate. A federal district court, in setting aside an Interstate Commerce Commission order, ruled that a finding of "good cause appearing therefor" was inadequate to enable the commission to vacate a prior rate suspension order containing a positive finding that proposed rates would be unreasonable. *Dixie Carriers, Inc. et al. v. United States, 143 F Supp 844.*

FCC Television Preference. The United States court of appeals held that a determination that a particular type of factual difference was not significant for purposes of awarding a preference, as between one of two applicants for a single television station permit, was within the discretion of the Federal Communications Commission. *Sacramento Broadcasters, Inc. v. Federal Communications Commission, 236 F2d 689.*

Freight Car Billing. The United States court of appeals said that a railroad unable to furnish the size of a freight car ordered by the federal government as a shipper could properly bill for the size of the car actually supplied, but if the railroad was able to furnish a car of the size ordered and supplied a larger car, the proper billing under the service order and the rule of the Interstate Commerce

PUBLIC UTILITIES FORTNIGHTLY

Commission was the rate applicable to the car ordered. *United States v. New York, N. H. & H. R. Co.* 236 F2d 101.

Interpretative Ruling Not Reviewable. A United States district court held that an Interstate Commerce Commission order merely interpreting, at the request of a carrier and without a plenary hearing, the scope of the carrier's certificate authority did not constitute an order subject to review, so that the court had no authority to enjoin its enforcement. *Kulp & Gordon, Inc. v. United States*, 144 F Supp 456.

Discrimination by Interstate Carrier. The United States district court held that the collection of a lower rate by an interstate motor carrier than that which was required under tariff schedules filed with the commission constituted discrimination in favor of the person paying such rate, regardless of the intention of the parties. *Porto Transport v. Consolidated Diesel Electric Corp.* 19 FRD 256.

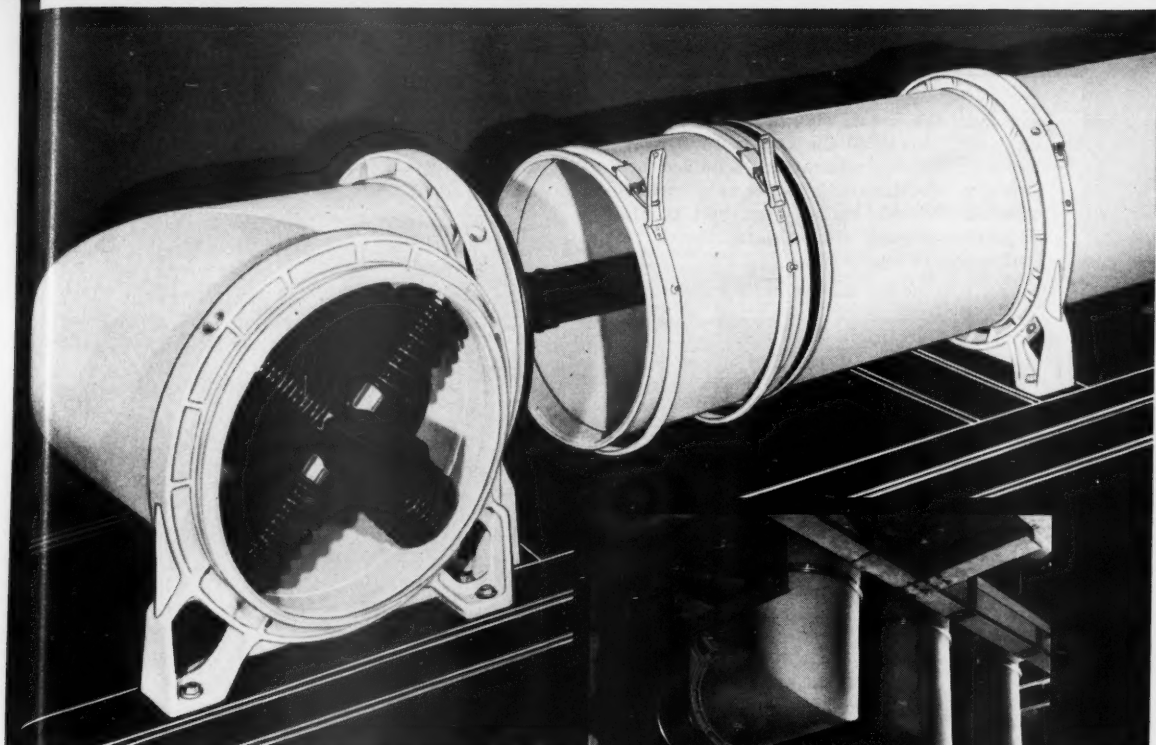
Injunction until Hearing. The United States district court held that an injunction enjoining the enforcement of an Interstate Commerce Commission order should remain in effect until the commission filed a report and order following a hearing, where the order enjoined had prescribed intrastate rates and charges without the investigation and hearing to which the parties were entitled. *Tennessee et al. v. United States et al.* 144 F Supp 361.

Rate Discrimination. The United States district court held that a difference in railroad freight rates and charges as affecting different classes of noncompeting shippers or consignees was not *per*

se unjustly discriminatory. *Florida Citrus Commission et al. v. United States et al.* 144 F Supp 517.

ICC Intrastate Increase. The United States district court upheld an Interstate Commerce Commission order requiring an increase in intrastate express rates where the evidence showed that the intrastate rates had not been bearing a fair share of the cost and expenses of the express agency's services. *Garden City Floral v. United States*, 143 F Supp 609.

Pipeline Certificate. The Federal Power Commission authorized Natural Gas Pipeline Company of America to build 350 miles of pipeline to transport natural gas to the Chicago area from Texas and southwestern Oklahoma. At the same time, Lone Star Gas Company was authorized to sell Natural Gas Pipeline up to 100,000,000 cubic feet of gas per day at a point on Natural Gas Pipeline's existing system. Originally Lone Star had sought a license to build a 230-mile line to carry gas for sale to Natural at Fritch, Texas, arguing that Lone Star could build facilities and provide all of Natural Gas Pipeline's gas needs cheaper than Natural Gas Pipeline could buy the gas and transport it through new and existing facilities. The city of Chicago supported this contention but the FPC, in ruling otherwise, said Lone Star's proposal for meeting Natural Gas Pipeline's requirements was less desirable than the arrangement sponsored by Natural Gas Pipeline. The FPC order also grants certificates to a group of independent producers authorizing them to sell natural gas to Natural Gas Pipeline from two Texas counties. *Natural Gas Pipeline Co. of America*, Docket Nos. G-4280 et al. Opinion No. 299, December 4, 1956.



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Industrial Progress

Minnesota Power & Light Has \$30,000,000 Program

EXPANSION doubling the size of the Clay Boswell steam electric station, now under construction near Chassett, to 130,000 kilowatts was announced recently by Minnesota Power & Light Company.

M. L. Hibbard, chairman of the board, said that an additional 65,000 kilowatt generator, plus boiler and other necessary facilities has been authorized by the board of directors and will be added to the company's newest plant.

This and other projects costing more than \$30,000,000 will be included in new expansion and modernization over the next four years, Hibbard added. These projects continue a program which began after World War II and which will involve expenditures of more than \$87,000,000 by 1960.

The new generating unit, a duplicate of the first at the Boswell plant, is scheduled to be placed in service by the end of 1959, some 18 months after the plant itself goes into operation. Its initial capacity will be 65,000 kilowatts.

Clay C. Boswell, company president and general manager, pointed out that the 217-acre site and design of the plant will permit expansion up to 400,000 kilowatts if necessary. Extension of the plant will raise its total cost to about \$25,000,000.

New transmission and distribution lines, substations and other facilities will be added to the company system to meet increasing demands for electricity and make service even more dependable, he said.

"Demands for electricity are growing so fast in the territory served by the company, we have to push our expansion program faster than we planned at the time we announced

construction of the new plant a year ago," he added.

To Explore World Market For Nuclear Power Systems

THE Martin Company recently announced the formation of "Martin International," a wholly owned subsidiary company which will explore and develop world markets for nuclear powered electrical generating systems.

George B. Shaw, presently Martin's vice president—procurement and former director of commercial sales, has been named president of the new company.

Martin International will be among the nation's first business establishments to embark on an international sales and promotion program aimed at harnessing the industrial atom for peacetime power. The program will concentrate particularly on power-hungry nations.

For three years the Martin Company has been concentrating on the development of nuclear reactor systems under military research and development programs. In the course of these programs, increasing emphasis has been placed on the development of power systems with a production capacity of from 10,000 to 15,000 kilowatts. The company is also the first to have virtually perfected development on fuel element fabrication—the single most important technical problem involved in engineering a power reactor system.

As a natural outgrowth of these developments and preliminary discussions with both private and government sources in the Dominican Republic, Cuba, and Brazil, the need for nuclear power plants in those countries has been confirmed. In the case of the Dominican Republic, Martin has already announced a contract with the government of Gen-

eralissimo Trujillo for the first atoms-for-peace power plant to be installed in the New World. This new plant will increase the combined generating capacity of steam, hydro-electric, and diesel plants supplying Ciudad Trujillo from 45,000 kilowatts to a total output of 57,000 kilowatts. Under President Eisenhower's atoms-for-peace plan, this contract is contingent on a bilateral agreement between the United States and the Dominican Republic before becoming effective.

The basic operating principle of the Martin industrial atomic reactor is a pressurized water system. Water pumped at high pressure in a closed system (the primary loop) passes through the reactor where it absorbs the heat generated by the slightly enriched uranium contained in the core. The heated water then passes to a steam generator where it gives up its heat to a secondary system. The cooled primary loop water is then pumped back to the reactor to continue its cycle.

Arizona Public Service Places Orders for Ocotillo Station

IN order to help meet the tremendously increasing demand for electric power in the state, Arizona Public Service Company has placed firm orders for the Ocotillo steam electric generating station according to Walter Lucking, president. The plant will include two 110,000 kilowatt units and will cost approximately \$28,000,000.

Mr. Lucking stated that the company's peak load is expected to reach 700,000 kilowatts by 1960 as compared with the 1956 peak load to date of 434,000 kw. Plans are to have Ocotillo plant "on the line" in the spring of 1960, in order to meet this demand. If continued growth of the

(Continued on page 26)

area indicates an earlier need for this capacity, construction can be rescheduled so that the plant will be ready for service in 1959.

The Ocotillo plant will bring the company's total electric system resources to 785,000 kilowatts, an increase of more than 500 per cent over the 1945 system resources of 122,000 kw.

Mr. Lucking said the company has invested more than \$130,000,000 in facilities in Arizona communities since 1945 to maintain adequate gas and electric service. Electric customers have increased from 69,000 in 1945 to 140,000 at the present time. The company expects to be serving nearly 240,000 electric customers by 1965, which will require the company to add even more generating facilities in the years to come.

AEC Announces Policy on Test Reactor Construction

THE Atomic Energy Commission is looking to private industry for the construction and operation of general purpose test reactors to meet growing needs of the Commission in its reactor development program and those of private industry in the development and construction of nuclear power plants.

To encourage private enterprise to enter this phase of the atomic energy industry, the commission will construct test reactors only if its needs for irradiation space cannot be met by private industry under contracts reserving for government use a percentage of the space available in privately-owned test reactors. In addition, the commission will permit the use of commission-owned test reactors for non-government purposes

only if privately-owned facilities are not available for the irradiation services required.

Reactors which come within this policy of the commission include facilities in which materials and reactor components may be subjected to an environment (temperature, radiation intensity, exposure to corrosive materials, etc.) comparable or identical to conditions which would obtain in reactors in which it is intended to use the materials and components; and facilities used to study the effects of radiation on electronic and other components of military vehicles or weapons systems.

The commission believes that a large part of its requirements for test reactor facilities can be met with privately-owned reactors based on proved designs and technology.

In keeping with its new policy, the commission will, at a later date, invite proposals by private industrial concerns to supply irradiation services suited to the commission's needs.

Until private industry is ready to finance the design, development, construction, and operation of test reactors of advanced design, the commission's policy envisages a continuing government role in this field and in the development of research reactors of new and improved design which are needed by the National Laboratories to carry forward research work assigned to the laboratories. Research reactors provide only limited amounts of space for testing purposes.

The new test reactor policy is another in a series of steps taken by the commission to bring commercial suppliers into the atomic energy industry. Fuel elements for the Materials Testing Reactor at the National Re-

actor Testing Station in Idaho, reactor-grade zirconium, hafnium, and beryllium are being procured from commercial suppliers through long term contracts. The commission has also invited private industry to undertake chemical processing of irradiated fuel elements and processing of enriched uranium scrap from fuel element fabrication, feed material and magnesium fluoride scrap. Private industry has recently undertaken the manufacture of boral, a lightweight material for use in reactor and accelerator shielding, which previously had been produced only at a commission installation.

Glossary of Electric Terms Published by EEI

EDISON Electric Institute announced recently the publication of Glossary of Electric Terms—Financial and Technical in common use in the Electric Utility Industry. It was compiled in response to a demand for such a publication from within the industry, and also from financial analysts, financial writers and others concerned with the reporting of electric utility operations.

The work of EEI's Statistical Committee, the glossary was prepared primarily to serve as a guide for laymen and utility personnel in the preparation and general interpretation of electric utility industry statistics. It is the first major glossary of electric terms printed since World War II which includes both financial and technical terms.

Practical definitions are given for over 300 terms and, in addition, many others are indexed and defined by cross-reference.

Single copies of the glossary are priced at 50c, and quantity discounts are available. The Institute's offices are at 420 Lexington Avenue, New York 17, N. Y.

So. California Ed. Executive Hails U. S. Atom Progress

UNDER the United States' aggressive and diversified approach to the development of atomic power, American free enterprise is playing a leading role in the generation of electric power from atomic energy, James L. Davenport, vice president and general manager of Southern California Edison Company, declared following his return from a European visit.

(Continued on page 28)

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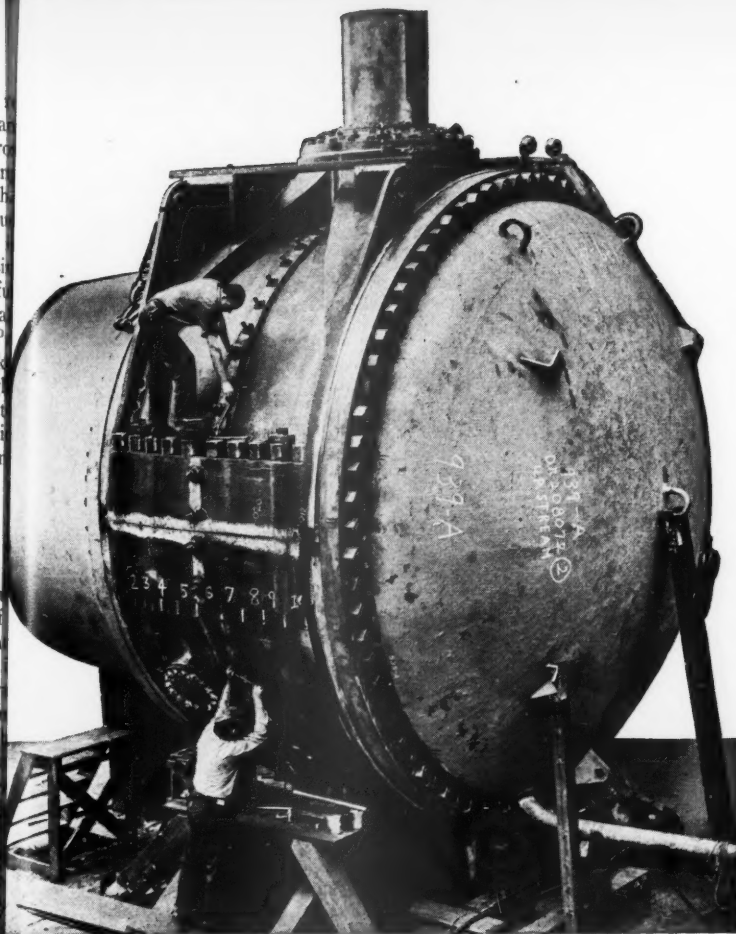
Prefer 40-55 years of age. Extensive design experience on transmission lines and large substations up to 230 KV. Consulting engineering and large electric utility background highly desirable. System planning, construction and operation, and industrial plant design helpful. Supervisory experience with professionally trained personnel and proven ability in employee and client relations essential. Staff position in Home Office. Some travel. Exceptional opportunity with progressive firm. Liberal employee benefits including insurance and retirement plan.

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This 16-Foot Butterfly Valve illustrates the type of work which Newport News takes in stride. Newport News built 3 such valves, each weighing 446,000 lbs., for the Ross Power Plant, Skagit Project, Department of Light, City of Seattle, Washington. Designed for a water flow of 3,620 cu. ft. per sec., and a hydrostatic pressure of 290 psi., these valves were shop tested by Newport News at 450 psi. They are hydraulically operated with oil at 1,500 psi. pressure. Shop tests assure speedy, trouble-free assembly of Newport News built equipment, on the site.

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INDUSTRIAL PROGRESS—(Continued)

Mr. Davenport, who flew to Vienna to present a scientific paper before the World Power Conference, said that U. S. electric companies would be unwise to engage in a race for large volumes of atomic kilowatts but should concentrate instead on research and experimentation with relatively small plants, utilizing a variety of nuclear systems to determine those that are both economical and reliable.

"Many other countries must go for quantity rather than quality," Mr. Davenport stated. "Russia, for example, is seriously short of other forms of energy to produce electric power needed to back its ambitious industrial expansion program. Britain's coal supply is running low and cost of imported fuels is high. She is therefore now building a number of atomic reactors of a type process capable of producing power out which may well be considered uneconomic in this country. The government of France, although making good progress, desires to have all NATO countries join with her in the Euratom Atomic Power Development Program."

Mr. Davenport said the Southern California Edison Company, in cooperation with Atomics International, a division of North American Aviation, Inc., now is developing an atomically powered generating plant at Santa Susana, California.

This will be the first non-military reactor in the United States to feed electricity out over private utility lines on a commercial basis, he declared—but it is, nevertheless, regarded as an experimental project.

"We hope to obtain from this experiment data which will be of value not only to us, but also to other U. S. power companies engaged in nuclear research. World leadership in nuclear power development ultimately will go to the country which establishes a system capable of maintenance of technical and manufacturing supremacy," Mr. Davenport declared. He said he believed this country's best chances of maintaining world leadership lie in continuing the policy of permitting free enterprise to do a large share of the job.

"One of our major problems is to reduce the present high cost of atom-

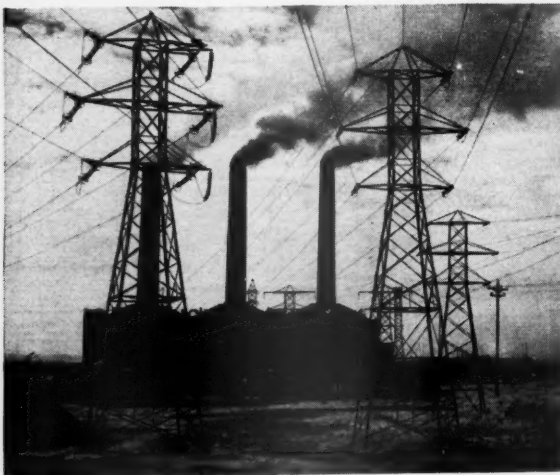
ically developed power," Mr. Davenport explained. "Free enterprise ways has a keen incentive in developing economies, since the results are directly reflected in their profits or losses and their ability to keep prices low to the public, hence the ability to stay in business."

Atomic Waste to Vie With Gas Storage for Old Wells?

In the peacetime application of nuclear energy the disposal of radioactive wastes potentially presents a major "non-beneficial" effect on the public and its resources. Waste materials in either gaseous, liquid or solid form are evolved in essentially all operations associated with nuclear energy facilities. This begins at the uranium mine and runs through the material production, reactor operation and chemical reprocessing of reactor fuels.

The nature and characteristics of the radioactive waste—long effective life, ability to damage body tissue, potential danger to the environment

(Continued on page 30)



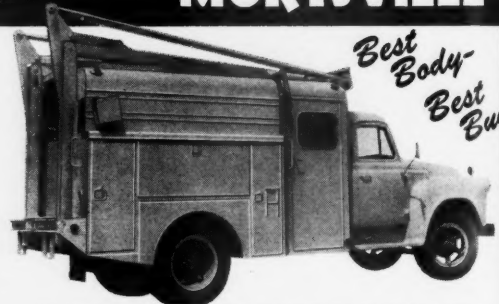
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Things to think about

when investing in treated wood products

Q. How much longer than untreated woods, do treated woods last?

A. Properly treated woods, such as woods treated by the American Creosoting Company, last four, five, even ten times as long as untreated woods. Under many conditions, wood treated by Amcreco may be considered essentially permanent.

Q. Are all modern-day wood preservatives about equal in value?

A. No, you can't assume that they are because none of the newly introduced preservatives have as yet been tried by the test of time. Creosote, on the other hand, which has been the number one wood preservative for over fifty years, is still number one in customer preference because of its established service record.

Q. Are all treatment companies about the same — one's as capable as another?

A. No, all treatment companies are not about the same. Some, such as the American Creosoting Company, which has been in the business for over fifty years, have more experience than others. Some, such as the American Creosoting Company, have had an opportunity to build up a treatment and service organization that is second to none.

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as a source of contamination—make safe handling and final disposal of wastes from the nuclear energy industry important aspects of all atomic facility operations. Joseph A. Lieberman, sanitary engineer of Atomic Energy Commission division of reactor development, states that probably more money has been spent, and more scientific and technological effort concentrated, on the various problems of this industrial waste than on any other industrial contaminant.

Work is being done on three avenues of approach to the disposal of

high-level atomic wastes. At present, these wastes come mainly from chemical processing of reactor fuels. These wastes do not come from the reactor itself, but can be generated in a situation involving reactor malfunction. In the future, such wastes may result from homogeneous reactor sites where continuous fuel processing is conducted at the reactor.

One of these approaches to waste disposal where a high level of radioactivity exists is to bond the waste with an inert carrier, such as clay or feldspar, after which the total mass

may be safely buried in selected locations without harmful effect. A has been working on this approach for a few years now.

Another avenue of approach being studied by the commission is the possibility of discharging wastes selected, natural geologic formations. This, of course, will occur at one of those familiar with natural gas storage, or similar usage of abandoned petroleum, gas, salt or sulphur wells. Preliminary evaluations indicate possible technical feasibility of disposal of highly radioactive liquids into the ground following the somewhat similar practices in other countries, but taking into account unique characteristics of radioactive wastes. Mr. Lieberman suggested in talk to the American Public Health Association, at Atlantic City, New Jersey in mid-November, 1956, that it may be practical to dispose of treated wastes directly into some formations as: (1) spaces prepared by dissolution in salt beds or domes; (2) deep basins—5,000 to 15,000 feet in depth—contain known brines where no exchange of water with neighboring drinkable irrigation water is possible, or where such solutions will not come into contact or find their way into channels of other valuable natural resources; (3) special excavations in selected shale formations. A number of engineering problems must be solved before these methods can be employed with complete success. In the case of the direct disposal system, questions relating to the physical and chemical reactions between the wastes and formation material, control of heat originating in radioactive decay, and the problems of transporting waste to the site, have to be answered. Work along these lines is now in beginning stages under the Atomic Energy Commission's aegis.

This announcement is under no circumstances to be construed as an offer to sell, or as a solicitation of an offer to buy any of these securities. The offering is made only by the Prospectus.

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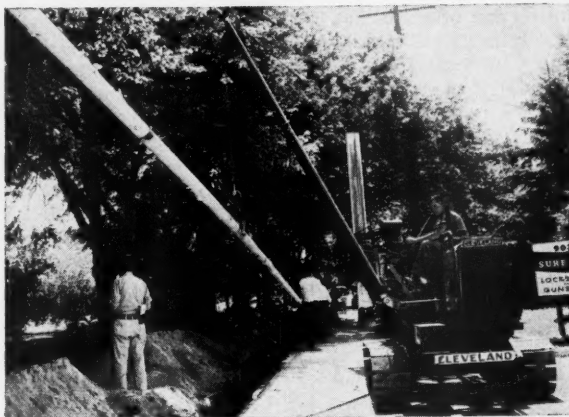
R.-R. Introduces New Microfilm Camera

A NEW compact, duplex microfilm camera that photographs both sides of a document simultaneously at any of three reduction ratios has been developed by Remington Rand Division of Sperry Rand Corp.

The Film-a-Record "Model 11" is a versatile, precision-built microfilm camera, compactly designed, yet incorporating features of cameras many times its size. The unit has a 12-in.

(Continued on page 32)

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throat, and doubles 16 mm. film capacity by filming up one side and down the other using the 8 mm. principle. Readily interchangeable lenses are available for 25 to 1, 35 to 1, and 42 to 1 reduction ratios. At the 42 to 1 ratio, the Model 11 films a greater number of documents per roll of film than any other microfilm camera now available.

Further information can be obtained from any Remington Rand sales office located in all principal cities, or by writing Remington Rand, 315 Fourth avenue, New York 10, N. Y.

Ingersoll Awarded \$1,300,000 Contract By Consol. Ed. Co. of N. Y.

CONSOLIDATED Edison Company of New York, Inc., announced recently that it had awarded to Ingersoll-Rand Company a \$1,300,000 contract for the main steam condenser and circulating water pumps for its Indian Point nuclear-fueled electric generating station.

The two pumps will be of the vertical wet pit type, each with a capacity of 140,000 gallons per minute. The single pass condenser will be the largest on the Con Edison system, with a surface of 212,000 square feet.

The Indian Point station, to be built at Buchanan, New York, will produce electricity from atomic energy in 1960. Overall cost of the plant is estimated at \$55,000,000, of which the company will have spent or committed \$21,000,000 by the end of 1956.

Government Approves Negotiations of Contract for Private Entry in Field of Raw Uranium Fuel

THE government has been seeking industrial firms which are interested in entering the field of refining uranium salts. The processing of uranium fuel at this stage has, in the past, been a monopoly of government. S. R. Sapirie, Manager of the Atomic Energy Commission's Oak Ridge operations office, has announced that the proposal submitted by the General Chemical Division of the Allied Chemical and Dye Corporation, New York, N. Y., for the production of refined uranium salts in privately owned and operated facilities has been selected as the basis for negotiation of a contract.

The program was originally announced on October 27, 1955, and proposals were received on October 1, 1956, the date set for their submission, from: Climax Molybdenum Company, New York, N. Y. and Mallinckrodt Chemical Works, St. Louis, Mo.; Dow Chemical Company, Midland, Michigan; General Chemical Division of the Allied Chemical and Dye Corporation, New York, N. Y.; Koppers Company, Inc., and Kennecott Copper Corporation, Pittsburgh, Pennsylvania; Twentieth Century Materials Corporation, Denver, Colorado; Union Carbide Nuclear Company, Division of Union Carbide and Carbon Corporation, New York, N. Y.; and Vitro Corporation of America, New York, N. Y.

The Allied proposal provided the lowest cost to the Government. Allied will employ a new process which will permit bypassing the refining step, as presently performed in AEC plants, and obtain the necessary purification by distillation of the uranium hexafluoride. Allied has stated that its new plant will be in operation by April 1, 1959.

The production of uranium salts is presently limited to government-owned plants operated for the commission by contractors. Operation by Allied of a privately financed facility is a significant step in the commission's program to broaden industrial participation in the atomic energy program. Private participation in this phase of the atomic energy program will satisfy the need for increased capacity without expansion of government-owned facilities.

G-E Head Places Output of Nation's Electrical Products at \$20 Billion

THE electrical industry is "one of the principal sources of opportunity and growth in American business, attracting new competitors all the time", Ralph J. Cordiner, president of the General Electric Company, told members of the National Electrical Manufacturers Association recently.

Mr. Cordiner said that "the number of establishments in the electrical machinery and equipment industry increased 46 per cent between 1947 and 1954," and that "the number of firms in electrical manufacturing had risen from 4,400 firms in 1945 to 5,600 in 1953," according to Department of Commerce reports.

"This year, the output of electrical goods is estimated to be about a billion—more than double that of years ago. Even if we continue to serve our customers only as well as we have in the past decade, we will see that by 1976, the market for electrical products reported by NEMA should be in the order of \$90 billion at today's prices," he said.

In explaining why the electrical industry has the opportunity to grow so fast, Mr. Cordiner emphasized that rather than being a "by-product of an expanding economy," the industry is "at the very heart of American growth and prosperity," and is "vital to the faster progress of every man, woman and child in the country."

Mr. Cordiner said that in countries where power resources have not been developed, "you will find poverty, misery, and hunger—the principal reason being that there is a shortage of electrical energy to make the work of such countries more productive. In the Asiatic countries such as India, China, Ceylon, and Pakistan, all the power generated in a year is less than 25 kilowatt-hours per person and per capita income is extremely low.

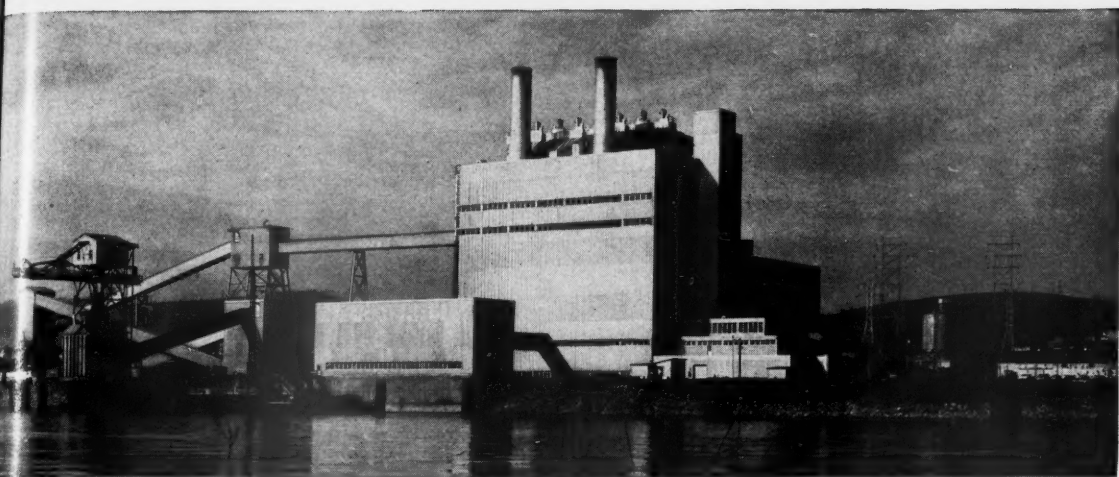
"But where power resources have been developed and put to work, as in Europe and Australia, you will find that the level of living has risen sharply, unless, as in Russia, it has been deliberately held down by the government through diversion of the increased output to military and political adventures," Mr. Cordiner continued. "The highest levels of living in the world are found in the free market economies of the United States and Canada, where the per capita output of electricity is between 3,000 kilowatt-hours a year," he said.

Discussing long-range planning, Mr. Cordiner warned of the necessity for the electrical industry "to make today's decisions in the perspective of what we expect conditions to be ten or twenty years from now."

"If we do not," he added, "we may fail to make the commitments in research, product development, facilities and capital planning, and market and manpower development—commitments that must be made now, in order to measure up to our future opportunities and our responsibilities to the American people."

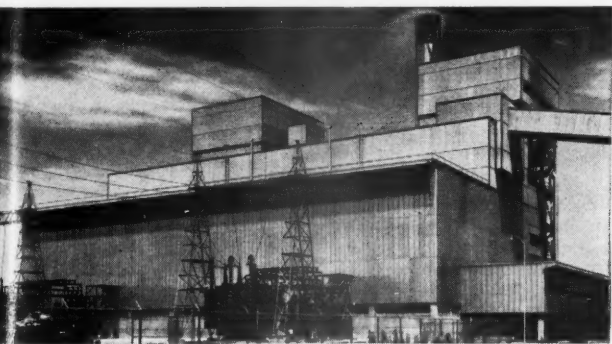
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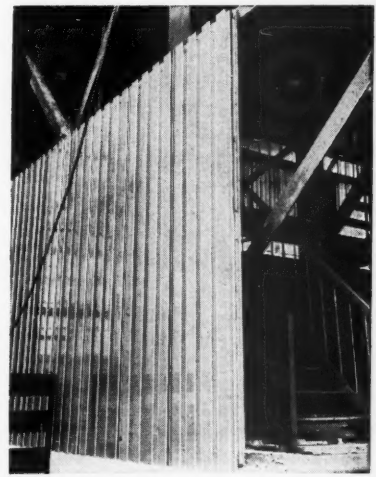


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Q-Panel walls grace the new Elrama Power Plant (above) near Pittsburgh. It was designed by Duquesne Light Company's Engineering and Construction Department. The Dravo Corporation was General Contractor.



Q-Panel walls (above) go up quickly in any weather because they are dry and hung in place, not piled up.

More than 32,000 sq. ft. of Q-Panels were used to enclose the impressive Hawthorn Steam Electric Station (left) of the Kansas City, Missouri, Power and Light Company. Ebasco Services, Inc., designed and built the plant.



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Mr. Cordiner said that, since 1939, labor rates have been increased by 178% and raw materials by 163%. In contrast, the prices of electrical machinery have advanced only 100% and of home electrical appliances only 41%. He told the industry's members, "We can be proud of the increase in volume and efficiency that have helped the industry absorb some of these increased costs, because they represent real progress for our customers and employees. But no industry can absorb so much cost increase in so few years, and still finance essential growth and compensate its investors adequately."

Mr. Cordiner called particular attention to research, market development, perpetual modernization, and expansion as important areas of challenge facing electrical manufacturers. "Steady progress," he said, "requires prices that are not only attractive to customers, but also adequate—with efficient operation—to yield earnings that warrant the investments required for progress in a growth industry."

International Harvester Adds to Line of All-wheel-drive Trucks

THE line of International "all-wheel-drive" trucks has been expanded through addition of four six-wheel-drive models and two four-wheel-drive models, it was announced by R. M. Buzard, manager of sales, motor truck division, International Harvester Company. All are heavy-duty units.

The new six-wheel-drive models are the SF-170 (6x6), with gross vehicle weight rating of 22,000 pounds; SF-172 (6x6), GVW 26,000 pounds; SF-180 (6x6), GVW 30,000 pounds; and SF-182 (6x6), GVW 33,000 pounds.

New four-wheel-drive models are the S-170 (4x4), GVW 19,000 pounds; and S-180 (4x4), GVW 20,000 pounds.

"These new heavy-duty all-wheel-drive trucks are designed particularly for off-highway operation where heavy loads or equipment are to be moved over terrain requiring greater traction," Mr. Buzard said. "They will be particularly effective in power and telephone work, pipe line, oil field, mining construction, road building and logging work."

The six-by-six models are available in four wheelbases: 142, 154, 172, and 190 inches. The four-by-fours are offered in four wheelbases: 130, 142,

154, and 172 inches.

The International line of "all-wheel-drive" trucks now has 10 models and ranges from 7,000 to 33,000 pounds GVW. Other models are the light-duty S-120 (4x4), with 7,000 pounds GVW; the medium-duty S-140 (4x4), GVW 11,000 pounds; and the S-160 (4x4), GVW 15,000 pounds; and the heavy-duty S-164 (4x4), GVW 18,000 pounds.

Four Utilities Receive "Plant America" Awards

TWENTY-THREE industrial firms and institutions in the United States, Canada and Hawaii have won "Plant America" awards in the Fourth Annual Industrial Landscaping Competition sponsored by the American Association of Nurserymen, according to an announcement by the association.

The awards are given in "recognition of achievement in industrial landscaping and beautification contributing to employee and civic pride in our American Heritage" and are based on nationwide competition.

Included in the firms winning Awards were Central Louisiana Electric Company, Lafayette, Louisiana; Eastern Iowa Light and Power Cooperative, Wilton Junction, Iowa; The Hawaiian Electric Company, Ltd., Honolulu; and Long Island Lighting Company, Hicksville, New York.

The awards formally will be presented early in 1957.

Holan Issues Catalog on Series 6700 Power Derrick

J. H. HOLAN Corporation, 4100 West 150th street, Cleveland 11, Ohio, has published a catalog on its new Series 6700 "bow-legged" power derrick.

The 4-page catalog gives capacities and heights in various working positions; dimensions; action photos; and details on various operating features of the new derrick.

The Series 6700 power derrick has an 8,000-pound capacity and can be used for handling poles up to 75 feet.

G-E Creates New Communication Products Department

GENERAL ELECTRIC Company recently announced the creation of a new operating department geared to meet the demands of a constantly-expanding communications market.

The new department will be known

as the General Electric Communication Products Department and will absorb functions previously handled by the company's Communication Equipment Section. Products of the new department will include mobile radio, microwave radio relay, radio traffic coordination units, power line carrier equipment, terminal equipment and other communication systems.

The announcement was made by Harold A. Strickland, Jr., general manager of the firm's Industrial Electronics Division, who disclosed that currently that Harrison Van Aken, Jr., has been promoted to the position of general manager of the new organization. Mr. Van Aken previously headed the Communication Equipment Section.

Headquarters of the General Electric Communication Products Department are at Electronics Park, Syracuse.

Homelite Announces New Centrifugal Pressure Pump

A new centrifugal pressure pump has just been announced by Homelite Port Chester, New York. The new Model 24S3-1P is a high volume pressure pump, designed specifically for utilities, contractors and builders, fire departments, farmers, and general industries. It has a capacity range of 55 gallons of water per minute at 7 pounds pressure to 205 gallons of water per minute at open discharge.

Weighing only 107 pounds, the new Model 24S3-1P is easily carried to any location. Filling booster tanks, jetting, pumping against high head, irrigation and spraying are only a few of its many uses. Self-priming, the new Model 24S3-1P will develop pressure in 15 seconds at five foot suction lift and 45 seconds at 15 foot suction lift. It has a guaranteed suction lift of 28 feet, a total head of 18 feet, including friction, and comes equipped with 3" suction and discharge fittings.

This new pump is mounted directly on the crankshaft of a Homelite single-cylinder, air-cooled, two-cycle gasoline engine. Completely protected high-tension fly-wheel type magnet permits easy, quick starts in any kind of weather. Closed-type impeller is designed with large clearances to permit operation in muddy water and constructed of long wearing cast iron for long service life. Further information may be obtained from the manufacturer.

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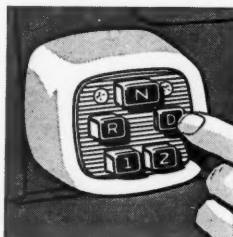
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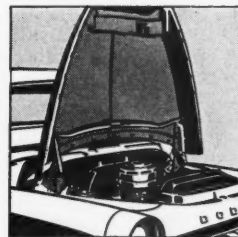
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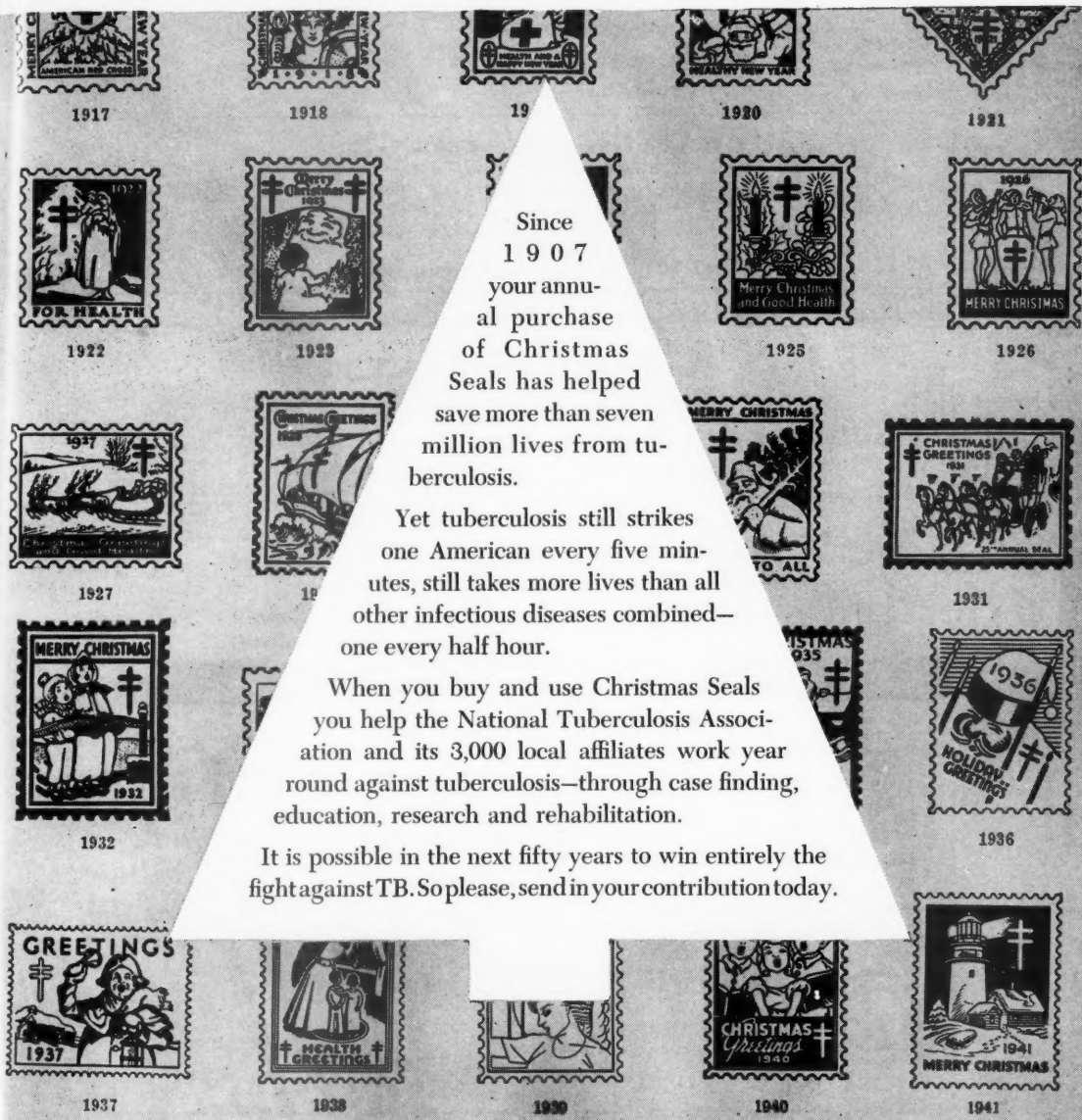
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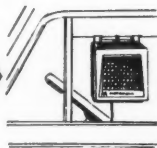
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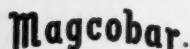
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